

THE BCCI AFFAIR

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
TERRORISM, NARCOTICS, AND INTERNATIONAL
OPERATIONS
OF THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE
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NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

WEDNESDAY, OCTOBER 23, 1991

**U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.**

The subcommittee met, pursuant to notice, at 10:08 a.m., in room SH-216, Hart Senate Office Building, Hon. John Kerry (chairman of the subcommittee) presiding.

Present: Senators Pell, Kerry, Brown, and Pressler.

Senator KERRY. This hearing of the Subcommittee on Terrorism, Narcotics and International Operations will come to order.

Senator KERRY. Mr. Lance, we welcome you this morning. Thank you for taking the time to come here.

I want to recognize that you have decided to come here voluntarily. There was no subpoena. You have cooperated with this committee and willingly, and, in fact, have volunteered to do so. We are appreciative for your help and assistance over the course of these last weeks.

I might also add that you have not been particularly public on the subject of BCCI. I think this is the first time that you've really talked in a significant way publicly about it. And so, again, we are appreciative for that. I do know that you have spent some time with the Federal authorities, Federal Reserve and others, the SEC, and I appreciate, given that fact, that you've been willing to come here.

This appearance of yours today is important to the committee for a number of different reasons.

It was you who gave BCCI, through the purchase process that took place with the National Bank of Georgia through which Mr. Pharaon and BCCI gained their first real foothold, as they viewed it, in this country.

Second, you introduced BCCI to what would become its flagship bank, Financial General Bankshares of Washington, Maryland, and Virginia, which was later renamed First American.

In addition to that, you introduced Mr. Clark Clifford to BCCI and to First American, thereby setting in motion a relationship which is now obviously the subject of considerable controversy.

It was also you who introduced Mr. Abedi to former President Carter.

I think it's going to be helpful to the committee to understand all of these relationships and to hear from you precisely what you knew at the time and what you understood to be the facts at the time and what you understand to be them now.

In addition to that, you had many meetings with a number of central players in this scandal, ranging from Aga Hasan Abedi, the founder of BCCI, to Sheikh Zayed of Abu Dhabi, a principal owner of BCCI, and with other high level BCCI officials.

It's our sense that you have a significant amount of information regarding the foreign policy aspects of the BCCI affair and some information regarding BCCI's relationship with U.S. intelligence.

I might comment that you said to us privately in discussions that you never had difficulty getting publicity here in Washington, and we can appreciate that it is not with great pleasure that you return to Washington as a witness in this situation. I just want to express my gratitude to you for being willing to do so.

Before I make any further comments, let me turn to my colleague, Senator Brown, to see if he has any opening comments.

Senator BROWN. Mr. Chairman, I simply want to add my thanks to the witness also. The fact is that this is an area that the Congress needs to do some work in. Our ultimate objective is to find areas where statutes, where new legislation, can be helpful in controlling foreign influence and developing standards in which countries can cooperate to control the abuse of the banking process. I know our witness has not only a great deal to say about the topics we've outlined, but my hope is before the hearing is over, he will share with us any ideas he may have with regard to future legislation that will be helpful in addressing what really is an international marketplace problem.

Senator KERRY. If I could pick up on that, I want to take advantage of the moment just to refocus some people on what the committee is doing and why it's doing this and where we began. I'll be very brief.

This entire investigation grew out of early allegations regarding a confusion between foreign policy goals and interests of the United States and intelligence goals or other kinds of efforts that sometimes collided with each other.

We wanted to look at the degree to which narcotics trafficking and other criminal activity might be infiltrating the legitimate interest area of U.S. policy. That specifically started with the Contras and allegations that they were involved with drug running and gun smuggling, and laws were being broken in Florida.

What we learned as we got into it was that it just got bigger and bigger and bigger. There was this extraordinary network out there of private arms dealers, of private profiteers of one kind or another, either on visas or on black market or something out of Panama and these countries.

What was particularly disturbing was the degree to which they seemed to have a capacity to influence decisions by governments and government officials. Our Government's severed alliance with General Noriega obviously became the paramount example of that kind of confusion as senior policymakers sought to help protect Noriega while he was smuggling narcotics into the U.S. because he supported the Reagan administration Contra program.

Recently, 10 percent of the Miami Police Department was fired or forced to resign because it had become involved in narcotics trafficking and in actually selling narcotics, not just hiding evidence and so forth. Many other countries have similar problems with drug related corruption today. Because of the huge funds involved, the lawlessness and the power that attach themselves to these kinds of illegal activities have the ability to subvert democracy itself.

Recently, I had a meeting with narcotics people and others in Italy who talked about the degree to which the entire southern portion of Italy was threatened by organized crime. It seems to me that this goes to the heart of the BCCI problem. When banks can be taken over illegally, or when foreign interests have the ability to be able to gain a foothold and, by buying influence and peddling influence you have at least begun a process of chipping away at your system.

The clear question here is why, when so much was known and when so many people seem to have a sense that these illegal activities were going on, things didn't happen to stop it. What got in the way of the larger interests of our society? Why was it that law enforcement or others didn't take steps? Were there larger interests at stake here?

I don't know the answers to all those questions, but that's a large part of what we are trying to get at.

Clearly, for the average person in the street, who is worried about a system of government that seems to have several different standards in applying its laws, this is also an important lesson: whether or not it means truly that those who have access to the lawyers and the power are going to have a different standard applied to them, while the average citizen, is the person who pays the full measure of the laws in this country. That is supposed to be, I believe, a significant part of what this country of ours is about, applying our laws fairly and evenly.

Mr. Lance, if you would stand, I would like to swear you, please.

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LANCE. I do.

Senator KERRY. Would you state your full name and, if you would, please, if you'd like to give an opening statement, I'd appreciate it.

TESTIMONY OF THOMAS BERTRAM LANCE, FORMER DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Mr. LANCE. My name is Thomas Bertram Lance, Sr. I live in Calhoun, GA.

Senator Kerry, Senator Brown, I would like to be able to say that I am delighted to be here this morning. I have had this occasion before, and sometimes it was fun and sometimes it was not. I am privileged to be here this morning. I think that any time that any citizen of this country has the opportunity to appear before the Senate or the House or any other governmental agency that is seeking the truth, that it's a privilege. And I feel that way very strongly about my presence here this morning, that it's a privilege.

I am here to tell you what I know that may be helpful to you as you seek the truth, and I appreciate what both of you gentlemen had to say.

I don't have a prepared statement because, frankly, I have been traveling for the last 2 or 3 days, and I did not have a chance, after fairly short notice about my appearance here. What I would like to do, if it meets with your approval, is to simply maybe narrate some of the events that took place in my relationship with Mr. Abedi and BCCI and the other people that have been involved. Obviously, I will allow you to interrupt me at any point that I raise a question or anything else.

But I thought that it might be more helpful in that regard than simply reading a prepared statement.

Senator KERRY. I appreciate that.

Mr. LANCE. Plus the fact that it will keep the press on their toes and that's always a good thing to do, when they don't have something that they can read there in regard to the situation.

Senator KERRY. Well, they know you know how to keep them on their toes.

Mr. LANCE. I don't know about that. Sometimes I wonder.

Senator KERRY. I'd appreciate it if you'd begin by giving us just a brief sort of resume and a little bit of your background.

Mr. LANCE. All right, sir. I'd be delighted to do that.

I am a native Georgian. I had a high privilege in Georgia, serving as the director, and ultimately commissioner, of the Department of Transportation while Governor Carter was Governor. I, at the same time, had the opportunity to run for Governor of Georgia in 1974. I got beat in a close election. It probably would have suited me better if it had been more definitive because you wonder who voted for you and who didn't.

After that, I went to the National Bank of Georgia. I had been chairman of the Calhoun First National Bank prior to that. I went to the National Bank of Georgia in 1975 as the president and chief operating officer.

In 1976, I was active in the Presidential campaign of Jimmy Carter and subsequently came to Washington to serve as Director of the Office of Management and Budget.

In 1977, I subsequently resigned, in September 1977, and went back to Georgia, and at that point in time began to try to make a living doing various and sundry things, mostly in the consulting area because of other circumstances. I will get into some parts of that experience as we move along.

Basically, that's what I have done since 1977. I still live in Calhoun, GA, and have maintained an interest in the political process in this country as well as elsewhere around the world.

Is that sufficient background?

Senator KERRY. That is sufficient. Thank you.

Mr. LANCE. Now, what I thought would be the most appropriate thing for me this morning and perhaps save you and Senator Brown and others as much time as possible would sort of be to just merely narrate what happened in regard to my meeting Mr. Abedi, what I recall as having taken place with regard to that, and then I have some thoughts, as we develop questions back and forth, that

may be incumbent for me to respond to as it raises questions in your mind.

I was Director of OMB from January 20, 1977, until September 21, 1977. I had some difficult times to go through during that period of time of allegations, innuendo, and charges that all of the other things that sometimes people in public life go through.

I finally came to a point in time when I made a decision, and it was my own decision, that, in order for President Carter to move ahead in dealing with the problems of the country and the rest of the world that he felt an obligation to deal with, that it would be better for him to be free of Bert Lance and answering questions all the time about this, that, or the other as it related to me. So I submitted my resignation in September 1977, after 3 days of Senate hearings that are well noted in the public record.

Along in early October 1977, I had a call from a friend of mine in Georgia, a former State senator by the name of Eugene Holly, who said that he had developed a relationship with a gentleman by the name of Aga Abedi, who had a bank in London named BCCI, which stood for Bank of Credit and Commerce International; and that he had had some conversations with Mr. Abedi about me and whatever few abilities I might have and things of that nature; and that he thought it would be worthwhile if I had occasion to meet Mr. Abedi and discuss with him what his interest might or may not have been in regard to the United States, in regard to investments, in regarding to banking generally, and so on.

I was not an unknown banker at that point in time, I might add, because of the circumstances that I had been through.

Early in October, I met in New York at the Waldorf Astoria. I met Senator Holly. I met a gentleman named Mr. Abedi, a gentleman named Mr. Naqvi. I believe that those were the only four people that were involved at that point in time.

Basically, Mr. Abedi said to me: I am building a bank headquartered in London that has a deep and abiding interest in the problems of health, hunger, economic development, things primarily in the Third World, problems that we all are familiar with and problems that we all want to see resolved in one form or another.

I shared that concern, especially about economic development, because I had come from a poor section of Georgia, where I saw what the utilization of resources in a bank could really mean to the people in that community through job creation. And, I might add, we need it very badly today, in my judgment, when I look at the economic circumstances that are taking place in our Nation.

So I felt that I knew something about economic development, job creation, with utilization of assets and resources.

That was the kind of conversation that I had with Mr. Abedi at that point in time.

Mr. Abedi's comments to me, without trying to be specific because it's been such a long period of time, happened to be that look, I'm trying to build this global institution. Obviously I have an interest in the United States. My rejoinder to him was that obviously you cannot be a global bank, an international bank, without some sort of presence in the United States. This is the most powerful, rich nation in the world and this is certainly something that you ought to look at.

It was that sort of conversation that we had initially.

Now, after that, after that initial conversation, which was fairly general in its totality, basically philosophical in nature, I came back and said look, before I go any further, I have just resigned from OMB in order to not cause any further problems for the President of the United States. I am not about to get involved in a situation whereby the relationships that I establish after having resigned would create any problem of embarrassment, concern, or anything else for the President of the United States.

I was very keenly aware of that problem. And, because of my relationship with the President, I felt very, very strongly about that.

And so, I said not only to myself but to my family and the friends that I had who were knowledgeable about what I was talking about doing at that point in time: Look, I have to do due diligence about Mr. Abedi and BCCI. He was not reluctant for that to be done. He had brought some annual reports, as I recall, about BCCI, at that first meeting that he gave to me.

I went to see Mr. Clifford, who had represented me since the Labor Day weekend of 1977, and I said: Mr. Clifford, I have made the acquaintance of Mr. Abedi. His bank is BCCI. He has some interest in talking to me about future relationships, whether that is in regard to being merely a consultant or being actively involved in one of his operations somewhere, that sort of conversation. But before I do that, it is absolutely imperative and incumbent upon me to make sure that we know what kind of people that I am getting involved with if, in fact, I do get involved.

I asked Mr. Clifford, because of his knowledge and expertise and things in not only here but around the world, to do his due diligence on my behalf, as my attorney, and that I would, likewise, do mine.

I want to make that very, very clear to both of you, and the committee, and the country as a whole, because it's very important.

I have had a situation in the press where I constantly get tangled up with regard to BCCI, and it's been very harmful to me, personally and in a business sense. I want to make sure that everybody understands what I did initially with regard to that situation.

I feel very strongly about that being important because of the circumstances that subsequently have developed in regard to BCCI and the fraud and scandal that obviously has taken place.

I did the checking that I could. Again, as I said, I was not an unknown banker at that point in time or unknown in the country. I had easy access to having telephone calls returned and that sort of thing.

I asked people that I thought would have some knowledge of BCCI and Mr. Abedi what they thought. Were they people of character and integrity? Was the banking institution itself one of character and integrity?

I knew that I still had a good way to go in regard to the process winding its way ultimately to some conclusion, and, therefore, that, too, was important to me, not only as it was important in the concerns that I had about President Carter.

Every instance of report that I either got or from what Mr. Clifford told me came back that Mr. Abedi was a man of integrity and character, that BCCI was a new kid on the block, so to speak, in

regard to trying to make inroads into the banking community in London, in Europe, and so on, but that they were people of integrity and character.

So, subsequently, having received that assurance, as I recall at that point in time there were two senior executives from the Bank of America who were on the board of directors of BCCI. They spoke highly of the institution, of what role it wanted to play, and so on.

So, we moved on to take the next step, and that was the conversation.

I think that that took place in London—again, to both of you—in a conversation with Mr. Abedi and Mr. Naqvi. Let me say at the outset, so that in case I should misspeak or something, generally, when there was any meeting with Mr. Abedi, except on some rare occasions, Mr. Naqvi was generally present. So I sometimes may leave him out of the conversation. But, generally, on most occasions he was present.

Now, at that particular point, it was talked about, about Mr. Abedi's interest in the United States as it relates to banks.

Senator KERRY. This is at what point now?

Mr. LANCE. This was in October, still, or early November 1977. I expect that it was in late October, to try to give you a definitive date.

I think this is important to begin to put what you're seeking into some context of where they were at that point in time.

Mr. Abedi said, as I said, and the way I generally describe it is that, in effect, he wore three hats at that point in time.

He said that he was the founder and managing director, for lack of a proper term, of BCCI. He represented certain investors who were people of significant wealth, primarily Arab investors out of the Middle East; and then he had his own interest in a personal matter; that obviously there was an interest in the United States; that BCCI, if, as I said, were to be a global institution, then obviously I felt very strongly that it had to have a presence in the United States. I did not know any of the details of regulatory supervision or so forth and so on of BCCI, other than the fact that I guess I had been told that it was chartered or headquartered in Luxembourg, or under their regulation, what have you; that there was an interest in BCCI acquiring a position in U.S. banking, there was an interest in individual investors acquiring a position in U.S. banking, as well as other type investments.

I had several conversations from that point on about what made the most sense. My advice to Mr. Abedi at that point in time was very clear and precise, as I recall, that you need to get acquainted, you need to go through the regulatory process in the United States; that, obviously, despite my difficulty sometimes in dealing with them, that I thought it to be the best process in the world; that banks who were regulated in the United States offered their depositors safety; that it was the kind of climate that was appropriate and proper, and that was what they ought to do.

There was never any comment, as I recall, by Mr. Abedi, about any previous effort to take a position in any U.S. bank. He did tell me that it was obvious at that point in time that the Bank of Commerce in New York City was available for purchase.

Well, I happened to know enough about Financial General because when I was at the National Bank of Georgia, they were owned by Financial General. I and other directors of the bank had bought control of the National Bank of Georgia from Financial General. So I was aware of the banks that they had because I'd met most of those people and had some familiarity with it.

During the course of all those conversations, it became clear that Mr. Abedi was interested in the United States; that he had this particular interest in the Bank of Commerce.

Now there were other stockholders in Financial General at that point in time that I happened to have an awareness of who had, I don't think had been very happy about their investment. They were looking for purchasers. General Olmstead, who had been the guiding force, for lack of a better term, with regard to Financial General, had found himself, I think, having to make a basic decision as to whether he was going to divest of Financial General or the international bank because of a Fed order. And so I knew about all that.

During the course of the conversations that were held, it soon became very obvious to me, Mr. Chairman, that if there was an interest in the United States, that it made more sense to talk about acquiring Financial General than it did just of acquiring the Bank of Commerce in New York; that the purchase price, as I recall—and please don't hold me to this because it's been a long time—was somewhere between \$25 million and \$30 million for the Bank of Commerce, which primarily was in New York City, and may have had branches in other parts of the State. But you could have acquired the whole of Financial General, which enjoyed a very unique position in American banking at that point in time in the sense that it was one of the two or three, maybe four, multistate holding companies that were in existence in the United States.

And so, from an economic standpoint, from a practical standpoint, it made more sense to me to talk about the acquisition of Financial General instead of the acquisition of the Bank of Commerce.

Senator KERRY. So you really flagged Financial General for him?

Mr. LANCE. That is my total and complete impression, Mr. Chairman. I have seen statements that said somebody else had mentioned Financial General and so on. I do not know anything about that.

I never had any conversations that related to any aspect of that. Everything that I saw related to the fact that Mr. Abedi was familiar with the Bank of Commerce.

Now, I subsequently have found—

Senator KERRY. I'm sorry. Let me just interrupt me there if I may because I don't want to come back to it later.

There's a letter from Kamal Adham to the Federal Reserve dated April 10, 1991. That states that a man named Hasan Yassin advised Adham that Financial General Bankshares would be a good investment, and he turned to Abedi to evaluate it.

Is that account correct in your view?

Mr. LANCE. In my view, that is not something that I knew anything about.

Senator KERRY. So the first conversations that you remember Mr. Abedi having were with you?

Mr. LANCE. That's correct.

Senator KERRY. And you brought it to his attention?

Mr. LANCE. I brought it to his attention because I was familiar with Financial General. I think that it was an awfully good franchise then. Obviously, it's a good franchise now, as far as I'm concerned, in the sense of the banking business. And it made sense for him to look at that, instead of just the Bank of Commerce.

I never heard anything about any prior conversation about Financial General, Mr. Chairman. So I'm not saying that's not accurate. I just simply don't know about that. But I never had any conversations with Mr. Abedi or anybody else that there had been any prior interest.

Senator KERRY. Did you ever know Hasan Yassin?

Mr. LANCE. No, sir, I do not.

The other thing that I subsequently have learned, I think basically through your committee hearings, is the fact that at some point in time there was an interest in a Chelsea bank.

Senator KERRY. Correct.

Mr. LANCE. I knew nothing about that. And so, anything that I would say would be merely hearsay and what I've read. I know nothing about that situation.

Senator KERRY. Let me just clarify that since you've raised it.

So whatever due diligence was done by Messrs. Clifford and Altman or by yourself did not turn up that, at the time, BCCI had been refused a license to take over the Chelsea Bank?

Mr. LANCE. Absolutely not. There was never any comment about that until your hearings.

Senator KERRY. And you never learned that the New York regulators, in fact, believed that the would-be purchaser for the Chelsea Bank, a so-called Mr. Gokal, was possibly a front man for BCCI?

Mr. LANCE. No, sir. I did not know that.

Senator KERRY. So at the time this due diligence was done, the due diligence did not turn up that the New York bank regulators had refused BCCI access because BCCI was deemed to be trying to make a purchase through a front person?

Mr. LANCE. I had no knowledge of that. And, subsequent to that, as, again, as I said through I think your hearings—

Senator KERRY. Does that suggest anything to you with respect to the due diligence?

Mr. LANCE. No, I don't think so, because I subsequently have read—and I don't know whether this is accurate or not, and I'm sure that you have the answer—that actually there had been no application by BCCI as it related to the Chelsea Bank, that that was done in the name of someone else. Whether that was a direct, straightforward or a nominee transaction, obviously I have no knowledge of. But what I had been told was that BCCI never filed any sort of—

Senator KERRY. Formally?

Mr. LANCE [continuing]. Formally; and, therefore, there was never any response about any difficulty that they had had with the Fed or anybody else.

Senator KERRY. So that might, in fact, work the other way and say something more about the quality of their deception, perhaps.

Mr. LANCE. Well, it possibly could, from that standpoint, if they were, in fact, engaged in deception at that point in time.

I'm not sure that I am yet ready to reach that conclusion. Because of what my knowledge has been about Mr. Abedi and BCCI, I will withhold judgment on that for at least a while in regard to that.

But in regard to any prior knowledge about Financial General, Mr. Abedi never told me of any interest in that regard whatsoever prior to my mentioning Financial General. That came about after there had been comments about the Bank of Commerce.

Senator KERRY. In your conversation with him, did he appear to react in a way that indicated to you this was the first time he was hearing about it?

Mr. LANCE. That was my impression.

I did not think at that point in time, and I have seen nothing that I have recalled or read or anything of that type since then that would cause me to give you a different answer in that regard. That was my impression.

I told him again and made it very clear to him that, if you're going to have a presence, if you're going to be a world bank, if you're going to be a global institution, then, obviously, you have to have a presence in the United States. That's not against the law. That's to be welcomed. That speaks well for both parties, and so on.

My advice to him always was that, you know, you need to go ahead and go through the process of getting regulatory approval for whatever you do and make sure that you do it in direct fashion.

Now, again, I don't want either one of you to think that I am alluding to the fact that I thought there was some deception in saying that. I just learned a long time ago that what you can't do directly you can't do indirectly; and you'd better not get caught up in that.

So my approach I think is fairly open about my saying that you can do it directly and whatever you do, you make sure you do it properly. I've tried to do that, and, despite the controversy and other things that have arisen sometimes about me, I think it's very clear that I've done that.

The situation was such that that began to move along. At the same time—and I don't now how much you want me to delve into the question of NBG at this particular time because, obviously, that was much more important to me than the acquisition of Financial General because I had put myself in a position where it became important for that bank to be sold and I was looking for buyers. There had already been buyers that had looked at it. Obviously, every time anybody looked at it, they got an article in the press somewhere or on television that they were looking at it. They suddenly lost interest.

It's amazing how that happens sometimes.

Senator KERRY. Well, I think we would like to hear this. We are going to ask you some questions about the NBG purchase. So if you want to deal with it now, you can, if it sequentially fits. Otherwise, we'll come back to it.

Mr. LANCE. Well, basically, basically they were occurring at the same time, "they" being the interest that was shown in Financial General and the sale of NBG by me.

Now, again, to put it into proper perspective, Mr. Clifford and Bob Altman represented me at that point in time as a result of the Senate hearings in September 1977. They were very aware of what I was trying to do and were very helpful to me in trying to do that.

The circumstance involving NBG was discussed with Mr. Abedi when I said to him: Look, you have these investors that you have said that you represent, who want to be involved in U.S. investments, and so on. Now what about the National Bank of Georgia? Again, it's in a fine community, it's in a growing area, it's had the opportunity to grow and develop. But there's a lot of potential there in Georgia and the southeast, in the Sun Belt.

And he said: Well, I have an investor who, by the name of Ghaith Pharaon, who has acquired banks in the United States previously. He acquired Commonwealth Bank in Detroit, I believe is the proper name, and the Main Bank in Houston, as I recall, and he is interested in the acquisition of another banking facility in the United States.

Senator KERRY. Mr. Abedi said this to you?

Mr. LANCE. Mr. Abedi said this. And he said it appears to me that that would make a lot of sense.

So that moved along basically on the same sort of track that the interest in Financial General moved along.

Now, I think that it's important for me to try to separate the two from your standpoint, simply so that we can begin to try to ferret out all of these different relationships.

Pharaon, as far as I knew at that point in time, was not an investor in Financial General or a potential investor, depending on the time that we were talking about.

Senator KERRY. How did you know that?

Mr. LANCE. Because, as acquisition of Financial General stock was being made, those investors were identified, as I recall, and, basically, they were people other than Ghaith Pharaon. And, of course, I wanted to make sure, as I said earlier, I had a commitment and obligation to the shareholders of the National Bank of Georgia, and I wanted to make sure that an offer was made to them in regard to the whole situation because of the circumstances previously, to my hearings and all the things that had transpired that we don't need to go into this morning.

So, it was very clear that there were two groups of investors there that Mr. Abedi said that he was representing. One happened to be the investors that subsequently ended up as the individual shareholders in Financial General, and Ghaith Pharaon, who ended up as the sole investor in the National Bank of Georgia.

Now, I may not have made it as clear as I ought to, but all of this was happening in a relatively short period of time because of the circumstances.

You had investors in Financial General that had to make some sort of decision fairly quickly about what they were going to do about the price of their stock, whether they were going to keep it, whether they were going to dispose of it, or whatever the circumstances might be in that regard.

You had the situation involving me. I was only a 12-percent shareholder in the National Bank of Georgia. But constantly it was referred to as "Bert Lance's bank," and so forth and so on, and "Bert Lance sold his bank to Ghaith Pharaon," and it's always my picture that's in the paper with Ghaith, and all this, that, and the other. I was only a small shareholder who had a concern, a commitment, and an obligation to the other shareholders because I had been responsible for many of them being investors in the National Bank of Georgia.

So I was concerned about that first and foremost. Financial General could wait, as far as I was concerned, until I was able to do something about that.

But all of this was happening very, very quickly. And during November and December 1977, it pretty well took place in the broad beginning of purchase of Financial General on the one hand and, obviously, the acquisition of the National Bank of Georgia on the other.

There were two different, I hate to use the word "groups," whenever you talk about things in a banking matter because the SEC and other folks get all excited whenever they hear something about a "group" and all this. But there were two different entities, is what I'm trying to say to you, that were involved. I guess I was central to both of them. Mr. Abedi was central to both of them. Mr. Clifford and Bob Altman were central to both of them. And, in fact, Mr. Clifford and Bob Altman represented me in a legal sense.

Senator KERRY. Now, they represented you; they also represented BCCI?

Mr. LANCE. I don't think so at that particular time, Mr. Chairman. I think that came later.

Senator KERRY. OK. Fair enough.

Mr. LANCE. We'll talk about that and try to keep it in some sort of chronological order.

But by, let me try to put a timeframe on it because it may be helpful, again, to your committee as you look at other things.

I recall that there was a meeting in Atlanta over Thanksgiving weekend in 1977, whereby there was basic discussion and negotiation about the purchase of NBG. But there also was negotiation—not "negotiation," as such, but conversation—about the purchase of Financial General. The people who were involved in that area, from the standpoint of BCCI, would have been Mr. Abedi, a gentleman named Mr. Sami—and I'm sure you've heard about him in this committee—and Mr. Naqvi, again, and perhaps a gentleman named Dildar Rizvi. Those were the gentlemen that were there in regard to BCCI.

Pretty basically, after discussions with Mr. Abedi about the National Bank of Georgia, I turned over those negotiations to Bob Altman to deal with Pharaon's attorney, a gentleman by the name of Frank Van Court, who is a member of the Vincent & Elkins law firm in Houston. They pretty well handled that part of the negotiations and things of that type.

I don't think that I ever met Ghaith Pharaon until some time in January 1978. I, again, have only seen him, to my recollection, on two occasions, and both of those took place at a night and the next day when we had a press conference in Atlanta, announcing the

purchase of National Bank of Georgia by Ghaith Pharaon. That has been the limit of my knowledge and involvement on a direct basis with Mr. Pharaon.

Senator KERRY. Let me just ask you, if I could interrupt you again there, up until that time, all the negotiations and discussions with respect to the purchase of National Bank of Georgia, your sale, was with Mr. Abedi?

Mr. LANCE. That's correct.

Senator KERRY. You never met Ghaith Pharaon until the night of the closing?

Mr. LANCE. No, sir. It was the night, or the day before. It was not the closing because, obviously, he had to get approval before we—

Senator KERRY. The day before you announced the wrap-up of the deal?

Mr. LANCE. That's correct.

Senator KERRY. And prior to that, all negotiations, to your knowledge, that were conducted by Mr. Altman on your behalf were with Mr. Abedi?

Mr. LANCE. No, sir, with Mr. Van Court—

Senator KERRY. Mr. Van Court.

Mr. LANCE [continuing]. Who was Mr. Pharaon's attorney from Houston and has been involved in one of his domestic U.S. corporations, as I understand.

But, basically, those were the sequence of events as it related to NBG.

Now, it took quite some time, obviously, because I felt, again, very strongly about the shareholders of the National Bank of Georgia, and that I was not going to sell my stock to Mr. Pharaon unless all the shareholders of the bank had the same opportunity.

So, basically, he ended up making a tender offer for 60 percent of the stock, which would give him control; and, obviously, he had to have approval of the Comptroller of the Currency because of change of ownership, and that sort of thing, all of which went through its own process.

Now, again, just so that the record is clear, I had no involvement with the National Bank of Georgia at that point in time except as a shareholder. I was not involved in the management in any form or fashion, and had not been since I left to come to Washington. So, therefore, the negotiations were handled by Bob Altman. My stock was still being handled by my trustee that had been set up when I came to Washington because of the short timeframe and so on. He was involved in those negotiations. I don't know a lot of the details that were involved in that. I was out trying to get my life put back together after the experience that I had had.

So that was taking place at the same time that the interest in Financial General was taking place.

As I said—can you hear me all right?

Senator KERRY. Yes, that's fine.

Mr. LANCE. The basic timeframe indicator, I think, that would be important to your committee would be sometime around that Thanksgiving weekend, that things at Financial General probably moved fairly quickly after that. By January and February and March 1978, again, we had been subjected to SEC litigation, we had

been subjected to private litigation, "we" being all the people who were involved in that process—BCCI, Mr. Abedi, the group of other shareholders of Financial General that I mentioned, headed by Mr. Middendorf, as I recall, and so on. Mr. Middendorf was not part of the group that was involved in our situation, but he was a part of the other group that brought the litigation.

And so, everything was encapsulated in a very, very brief period of time, from that standpoint.

I can continue to try to give you a chronological view now of what began to happen after that or if you have any questions.

Senator KERRY. Well, let me ask a few questions there, if I can.

After you sold the National Bank of Georgia, did you have any further involvement at all with NBG?

Mr. LANCE. No, sir.

Senator KERRY. That ended right then and there?

Mr. LANCE. That ended. Right.

Senator KERRY. And Mr. Pharaon paid you \$20 a share?

Mr. LANCE. Well, it took place in two different sales, Mr. Chairman, as I recall. I think the first one was \$20 a share. Then the second one, I think, was \$14 a share. So it averaged out to something like \$18 a share.

Senator KERRY. Do you know how that value was arrived at by Pharaon?

Mr. LANCE. No, I do not.

I think, basically, what it amounted to, as a percentage of book value, at that point in time was somewhere around 80 percent of book value. Again, I got excoriated in the press from time to time that this was some bailout situation. That's some bailout: he paid \$20 million and got \$220 million. That doesn't sound like a bailout to me where I come from. But those were the circumstances, as I recall them.

Senator KERRY. I suppose the issue was raised because at the time the stock was selling for something like \$10 a share.

Mr. LANCE. But, generally, there had been no real market in it because the influx of a buy or sell order would, you know, create a severe imbalance because no shareholders were selling and there weren't any buying that I knew anything about.

Historically, in Georgia—I can't speak around the rest of the country—but bank stocks generally have sold for 2 or 2¼ times book value. Obviously, that must have been—

Senator KERRY. I don't want to dwell on that. I simply wanted to know how Mr. Pharaon actually arrived at that price.

But you became a consultant after that, though, to BCCI, is that correct?

Mr. LANCE. That's correct.

Senator KERRY. What was the nature of your consultancy?

Mr. LANCE. Basically, to talk about investments in the United States and to talk about, as I said earlier, about economic development around the world as it related to utilization of assets and resources from a bank, what could you do to create jobs in the Third World countries, and so on, that Mr. Abedi had an overriding interest in. Part of that interest led to my introducing him to President Carter, which we will get to in the course of time.

Senator KERRY. What was your understanding at that point in time, Mr. Lance, of the role of BCCI's entity in the Grand Caymans, ICIC?

Mr. LANCE. I knew very little about ICIC. The comments that were made to me by Mr. Abedi related to that. It was, to give you an example, it was more like a commercial finance operation would be in the United States, that it was that sort of operation, as opposed to being any sort of banking operation, and that that would be an entity that perhaps would be involved in making loans and commercial development in Third World countries.

I never was totally familiar with the structure of that.

Senator KERRY. But you, in fact, were paid by ICIC? Is that right?

Mr. LANCE. I think it turned out that way, Senator. I think that was actually it.

Senator KERRY. Did you understand ICIC to be a bank?

Mr. LANCE. No, I did not think it was a bank. I thought it was, as I said, to best compare it to something that we would be familiar with, I would say that it was a commercial finance operation.

Senator KERRY. And that is what you would describe the nature and function of ICIC, as you understood it at that point in time?

Mr. LANCE. As I understood it. That's correct.

Senator KERRY. Did you have any further understanding of what it was at that time, or is that it?

Mr. LANCE. No, sir.

Senator KERRY. Just a finance entity?

Mr. LANCE. That's correct, and that was a very brief conversation, as I recall.

Senator KERRY. And you base that understanding on that conversation?

Mr. LANCE. That's correct.

Senator KERRY. And that conversation was with Mr. Abedi?

Mr. LANCE. That's correct. I have not had any further conversations with anybody that I recall about ICIC. So I really don't know very much about it.

Senator KERRY. So the transaction with NBG takes place. And, to the best of your knowledge, your testimony is that Ghaith Pharaon at that time was perceived by you as being the legitimate purchaser?

Mr. LANCE. That is absolutely correct. And my impression has been, throughout, that that was the case. And I think if you should have occasion to ask other shareholders in the National Bank of Georgia, or the lawyers who were involved in the transaction, everybody would tell you the same thing. That was the impression, that was the knowledge, that was the obvious—I didn't see all the documents, as I recall, obviously. But the ones that I saw all related to the fact that Dr. Pharaon was, in fact, the purchaser.

Senator KERRY. Now, that was the impression that people received, correct?

Mr. LANCE. That is correct.

Senator KERRY. Yesterday, Mr. Sakhia—did you ever meet Mr. Sakhia?

Mr. LANCE. I do not know him.

Senator KERRY. You don't know who he is?

Mr. LANCE. No, sir, I do not.

Senator KERRY. Mr. Sakhia, who worked in BCCI for some 13 years and was head of the American division, told this committee that within the bank, within the group of particularly Pakistanis, but within the group of people who were the managers of the bank, there was a common understanding that Mr. Pharaon was a front person for BCCI and for Mr. Abedi.

Mr. LANCE. Do you want me to—

Senator KERRY. What would your comment be to that?

Mr. LANCE. My comment would be that everything that I saw was to the contrary of that; that Dr. Pharaon was acting on his own behalf. He was portrayed, my impression of him was that he was a businessman who had other investments in the United States, he'd owned other banks in the United States, that he had this interest in the banking business in the United States, and that he was a person who obviously comes across as being in charge of whatever he's doing, and makes decisions, and that sort of thing. And that was my impression.

Senator KERRY. That is the impression, I suppose, that he was supposed to give, is it not? I mean, if, indeed, he were what Mr. Sakhia has purported that he was, that's what he was supposed to leave you with, the impression that he was exactly that. Correct?

Mr. LANCE. Yes, sir. I would think that would be the case, that if you were trying to perpetrate a deceit or something of that type, then, obviously, that's what you would get.

But I never saw—I hope that sometimes I'm a fairly keen observer. I doubt that I am, in retrospect, about a lot of things that I found myself involved in. But I, at least, try to listen to what people say and draw some conclusion about that. Again, if I thought otherwise, I would not hesitate for a minute to tell both of you gentlemen what I thought about that.

My impression was that it was a Pharaon transaction, that he was not acting on behalf of anybody, that he marched to his own orders, he knew what he wanted to do, and that, obviously, he had a relationship with BCCI.

I think at some point in time, this is where you get into this land of you're going to have to ultimately find the truth. And I hope and pray that you do find the truth about the whole situation because I've been mystified, as I'm sure other people have been mystified, about this whole developing scandal, problems, and what have you. And that is that, at that point in time, again, you had a situation where you could not eliminate BCCI from any involvement because you had Mr. Abedi there.

Dr. Pharaon, as I understood—I didn't know this first-hand—I think the way Mr. Abedi had characterized him to me early on was that he was a significant shareholder in BCCI. I don't know that. I subsequently have read that perhaps he was the largest. I don't know that. Mr. Abedi did not characterize him as the largest. I think he just said that he was a significant shareholder.

So BCCI was never any secret to anybody. They were out there all the time in regard to the whole of the circumstances. And, therefore, you can come back and, in the light of retrospect, obviously make certain conclusions that would be difficult to refute.

I can only tell you what my impression was at the time.

Senator KERRY. But that's very important and that's exactly what we're asking for here. We are trying to find the truth and we're trying to find out what happened and how this could have happened.

Mr. LANCE. Absolutely.

Senator KERRY. Obviously, I mean you've just used a word that Clark Clifford used, "mystified." I think it is helpful to understand what the picture was that people had at the time and then how that picture changed as you went along.

Obviously, one of the interesting questions here is what did you know and when did you know it—

Mr. LANCE. Absolutely.

Senator KERRY [continuing]. That awful question that keeps emerging in Washington.

It seems to me that there is considerable evidence—and I'm not drawing conclusions at all at this point—but considerable evidence at the early stage a group of Americans could easily have believed that this Middle Eastern investor group, or whatever entity it was acting under Abedi, was coming in with a lot of money and legitimate interests. It was petro-dollar time, as we all remember.

Mr. LANCE. That's correct.

Senator KERRY. There were a lot of bucks around. There was a lot of opportunity. And people sought to take advantage of it.

I find it very interesting when an insider in the bank and documents sort of contradict the face of what created the mystery to you and to Mr. Clifford and others. And then you begin to go down the road and say well maybe something began to change somewhere.

That's sort of, I think, the larger question here. In my own mind, I have reservations that anybody got into this thing knowing the full story about BCCI from the outset. But we need to go further, obviously, to understand it.

Mr. LANCE. Well, certainly I think that you are at the point of the critical questions that need to be asked, and, hopefully, there is an answer there somewhere that is the truth.

Senator KERRY. Well, I know that you have some more to shed on that as we go along here chronologically. So I don't want to interrupt you.

Mr. LANCE. And, as I said, I wanted to try to put both of them into proper context for both of you, though, so that you would understand that all of these things were taking place at a very encapsulated period of time.

Now, obviously, the process slows down in regard to the acquisition of Financial General. The process involving the acquisition of NBG moved ahead and went its own way, and that is another story that obviously you will get back to in some form or fashion.

The Financial General transaction began to slow down for obvious reasons. There were lawsuits that were instigated. I guess the way the Government would refer to them is a private litigation versus a governmental litigation. The SEC got involved in the controversy.

There was a consent order signed by myself and other people who were involved in regard to the 13(d) situation, as I recall.

Again, it's been a long time. Basically, that continued a period of time, for a period of time.

There was private litigation that was brought against the proposed takeover, if that's a proper word, and so on that obviously also was happening during that period of time.

So most of 1978, again, to try to put it in some proper timeframe for you—I know that you get so many dates and places and people and everything that sometimes it's hard to keep it in an orderly fashion—most of 1978 was spent during, trying to put out a brush fire here, trying to end litigation there, and that sort of thing. If I am making myself clear to you, I'm just trying to give you some feel of what was taking place.

There were meetings with, again, when I say the "shareholders," that was my impression, that were the shareholders of Financial General, whereby I, Mr. Clifford, Bob Altman met with Mr. Abedi and Mr. Naqvi and Kamal Adham, to be specific, in regard to his investment.

Senator KERRY. Did you meet with any of the other investors?

Mr. LANCE. Yes, sir. Ultimately, I had a visit with Sheikh Zayed, who was one of the investors, as I recall.

I recall a meeting with Mr. Darwaish, who was involved in managing the Abu Dhabi Investment Trust, or something of that nature. I don't think that's actually the proper term. But he, obviously, was an investment manager for Sheikh Zayed.

I recall the conversation about Faisal Foulraig, who, at that point in time, was chairman of the Kuwaiti Airlines. I do not recall that I ever met him. I do not believe that I did.

And, frankly, I did not meet any of the other shareholders, unless I may have, just by chance, met one of Sheikh Zayed's sons and I didn't really realize who it might be. I think he only has 60 or 70, and having 4 boys, I have a hard enough time keeping up with them. So, when you get into that number, I just sort of wasn't sure.

Senator KERRY. But you met, you are certain, with the two principal shareholders-to-be in the purchase of Financial General?

Mr. LANCE. Yes, sir. I think that's a proper descriptive term.

I really believe that Kamal Adham and Sheikh Zayed were the principal shareholders. I think that, obviously, there were these other two or three shareholders whom I did not know. But I think they were the principal shareholders. And I got the impression from the conversations that I had with Kamal Adham, in the presence of, again, the people that I mentioned earlier—Mr. Clifford, Bob Altman, Mr. Abedi, and Mr. Naqvi—that he was perceived as being certainly one of the principal shareholders and would sort of lead the other shareholders and so on.

Now, again, to try to put things in perspective for you, as you grapple with the complexity of this—and this is a complex issue. I mean, there are a lot of people, there's a lot of culture differences, there are world differences and things of that type that I certainly don't have to tell two distinguished Senators of the United States about. But all these things were there and it was complex.

Now, again, I told Mr. Abedi in very direct terms that you have said—and, again, I don't want there to be any inflection when I say "you have said" about there was any deceit or anything of that

type; what I say is what I say—but I'm trying to characterize the conversation that I had with him along this line which, again, I think is important to you. I said that you have said that these individual shareholders are people of wealth; that they are from the Middle East, primarily Arab investors.

Now, whenever you start talking about investment in a U.S. financial institution, and certainly one that bears some degree of uniqueness in the sense that it is a multistate holding company which, at that point in time, were rare in that regard, that you're going to have certain problems of perception, as well as reality, to overcome with regard to the way that the press in the United States covers this transaction with regard to whatever role the regulators have to play, and so on.

I think that's important from your standpoint, to be able to come up with some way of dealing with that in the most direct fashion. I said I can only tell you what I would do in those sorts of circumstances.

You have told me that these are passive investors who have access to large sums of money, who have no interest in managing or operating any sort of institution in the United States. They are not going to be on the board, they are not going to serve in any sort of management capacity. If that is the case—and I have no reason to think that that's not the case—then what I would suggest to you is that you take an outstanding American citizen who has no blemish in regard to anything in a public sense, and you take the stock that these individual investors are going to own, and then you put that together in some sort of trust and give that trustee irrevocable voting rights about that stock, and you will have taken a major step in dealing with some of the perception problems that you may have about individual investors.

Now, obviously, again, my comments about BCCI, if BCCI is involved, you must go through the regulatory process, you must make sure that there's no question about anything that comes along. That was my advice to him then; that would be my advice to him now; and I expect that if my advice had been totally followed in that regard, perhaps we wouldn't be here today talking about some of these things.

Senator KERRY. On the issue of Sheikh Zayed, you went over there to meet with Sheikh Zayed, correct?

Mr. LANCE. I did.

Senator KERRY. And you sought to persuade him to become involved in the purchase of Financial General Bankshares, correct?

Mr. LANCE. No, I don't think that's a fair characterization. I think that he—

Senator KERRY. Did you suggest that he put up two of his sons as investors?

Mr. LANCE. No, sir. That was already done. That decision, as I recall, had already basically been made.

Senator KERRY. This is in 1978?

Mr. LANCE. I think it must have been in 1978, Mr. Chairman. That's what I would recall just off the top of my head in regard to the visit with him, because, as it turned out—

Senator KERRY. Did Abedi suggest you go visit with him?

Mr. LANCE. He did, and he was present.

Senator KERRY. During the meeting?

Mr. LANCE. We went to a bustard hunting location in Pakistan, which was outside of Lahore. I notice that Peter Truell had a story about bustard hunting in regard to BCCI in the Wall Street Journal this morning, and that was the area where Sheikh Zayed spent his time. It was during the particular time of the year. So it may have been, I would guess that was in February or March 1978, as I recall that particular time.

But he had already made the decision about the investment, as far as I knew, in regard to Financial General, and that his sons were involved.

Senator KERRY. After you made that trip, did you come back and meet with Clark Clifford and Bob Altman to report to them on that?

Mr. LANCE. I'm sure that I did. I don't recall a specific meeting in regard to give them any report about that. As I said, Mr. Clifford and Bob and I had met with Kamal Adham and Mr. Darwaish, and I believe those were the only two in London. So I'm sure that I told Mr. Clifford and Bob of that meeting with Sheikh Zayed.

Sheikh Zayed, and again, in your interest, the interest of this committee, I think it might be well if I gave you some sense of the flavor of that meeting as it related to things other than the circumstances of a banking investment.

Senator KERRY. I was just about to ask you that. I was going to take advantage of the fact that we slid on to Sheikh Zayed now to try to follow down that course of inquiry. So I would appreciate it if you would share with us the sense of those discussions because I think they are helpful in shedding some light on his involvement here.

Mr. LANCE. Let me try to describe Sheikh Zayed for the two of you. He was an interesting man at that point in time when I met him. Not only did he not speak English, I don't think he understood the first word of English. That's one of the few people that I've ever run into that didn't understand anything that I was saying.

I know I talk funny. But it was obvious that he didn't have the slightest idea of what I was saying. He did respond to a smile, and I decided that might be the best way to communicate, particularly with all those folks running around with those falcons and everything else. Those falcons were a little bit more effective than the falcons I had been familiar with in Atlanta. So I didn't want to take advantage of too much of the situation.

But he was able to talk very definitively through an interpreter about his concerns of the treatment that he was receiving from the U.S. Government. That related to the fact that he had not had a good relationship with the U.S. Ambassador, and I don't recall who it was at that point in time, but that he was being treated in a manner that really wasn't befitting the strategic importance or the fiscal importance of the UAE and things of that nature. Basically, I would have imagined, Mr. Chairman, that we spent most of our time talking about that sort of thing, rather than actually talking about Financial General. That was not a big blip on his radar screen at that point in time, I don't think. It subsequently has

gotten rather major, I imagine. But it, at that point in time, was not very big.

But there was obviously a concern about the relationship of the United States to UAE, what was going to happen in the future, was there going to be this kind of concern shown to him and to his country as was shown to other Arab nations and things of that type.

He was not, as I said, a sophisticated man and being able to talk about global implications. My big experience had been with Dr. Brzezinski, as you know, and he was no Brzezinski in regard to talking about what he wanted to talk about. But he had obviously a concern.

Senator KERRY. Well, did he express to you pretty directly that he felt the United States discriminated against the Arab community in the Middle East?

Mr. LANCE. Well, not—basically two things that he talked about. One was obviously the call for even-handed treatment, which you have heard before. But he was basically, I would think, equally as concerned about discrimination as it related to the UAE vis-a-vis other Arab countries, and that they were obviously receiving more attention and more concern than perhaps the UAE was. And this was a matter of concern to him.

Senator KERRY. Was this bank marketed to him somewhat by Mr. Abedi, as well as by you, as a means of getting a more equal playing field, that this would be advantageous.

Mr. LANCE. Excuse me. I didn't mean to interrupt.

I cannot really answer that because I do not know what conversations that Mr. Abedi and Sheikh Zayed may have had about Financial General.

Senator KERRY. Did he not express that to you in some way in talking about leveling the playing field and gaining some influence?

Mr. LANCE. No, not really. And when we start talking about Mr. Abedi and so on specifically, I'll try to cover that part of his personality and what have you and the way that he responded to things, which may be of interest to you.

I think that there's one thing that is very important to be said at this juncture in the relationship that I saw with regard to Mr. Abedi and Sheikh Zayed and what that meant to an outside observer who obviously was not well versed in the ways of the Middle East and what have you. But I could understand what was being said because I had had the same experience as a country banker in Georgia, whereby you take somebody and you risk the assets of the bank by loaning them \$5,000 to start a carpet mill, and then you read in the paper, you know, some years later that they sold it for \$10 million or \$15 million. You obviously have an appreciation and a respect that grows from that person toward you if all other things are equal.

That was the relationship that I sensed between Sheikh Zayed and Mr. Abedi, that he was Mr. Abedi, who had, in effect, for lack of a better term, been kind and attentive to Sheikh Zayed when he was still wandering around in the desert and he had all his assets in his tent somewhere; and that it was not easy at that point in time; that the relationship with Mr. Abedi—and I think this is im-

portant to you as you search for the truth, to understand that that relationship went back a long way—and it went back before Sheikh Zayed became “the richest man in the world” at that point in time, with an income of some \$4 billion or \$5 billion, as the press reported; that there had been a relationship that had developed that Mr. Abedi had helped Sheikh Zayed when he had no real power or influence or he was not the rules of the country. As I understand, his brother perhaps was. I don’t know all the history that I ought to know about that.

But there was a unique relationship that related to the fact that Sheikh Zayed had absolute and total trust and confidence in Mr. Abedi, that whatever Mr. Abedi said or suggested was something that Sheikh Zayed would look on with favor; that Mr. Abedi had, in effect, built the house where we were outside of Lahore without any guidance or direction from Sheikh Zayed, and it was that sort of relationship.

It was very, very unique.

Now if you want me to, I can contrast that relationship for you in the hope of being enlightening about what I’m trying to say to you. That was different than the relationship that Mr. Abedi had, that I saw, with Kamal Adham, for example, or that I saw with Ghaith Pharaon. And if you want me to—I don’t want to get far afield in trying to talk about relationships and so forth and so on. If it’s helpful to you, I’ll try to tell you what that difference was.

Senator KERRY. Well, I think it might be helpful if you could do it in succinct fashion. I think it would shed some light on it.

Mr. LANCE. Well, it was just a difference in the relationship.

Kamal Adham, it appeared to me that he had respect and confidence in Mr. Abedi, and that he would listen to what he had to say, and so on; that Mr. Abedi had respect in a relationship with Kamal Adham.

I never sensed that with regard to Ghaith Pharaon. That was an entirely different relationship. I guess that’s one of the reasons that I remain convinced that Pharaon was acting on his own behalf whenever he first acquired the National Bank of Georgia; that there was a difference in that relationship between him; there was a difference in the relationship between Kamal Adham and Mr. Abedi and Sheikh Zayed and Mr. Abedi.

Senator KERRY. Now, did you come to believe or have a sense from those conversations that there was a link between the signing of the Camp David accords and the decision to try to purchase Financial General Bankshares?

Mr. LANCE. That’s an awfully searching question.

Senator KERRY. I thought you had expressed some views with respect to that.

Mr. LANCE. Well, I think that the views that I had expressed about that related to the role that Kamal Adham might have played in regard to the Camp David accords and what have you; that there was an opportunity there for Kamal Adham to have done the kind of work that he did with regard to Sadat’s visit to Jerusalem and that sort of thing, and subsequently playing a role in regard to satisfying some of the Arab countries with regard to the action that Sadat had taken, both in going to Jerusalem and also in the Camp David accords.

To tie the two together, no, sir. I don't believe that I have expressed that.

Senator KERRY. What about Adham's role within the intelligence community?

Mr. LANCE. The thing that I recall being told about Kamal Adham's role in the Saudi intelligence community was the fact that he had been, in fact, the head of the Saudi intelligence activities, and that he was well known in that regard, and that part of his "worth," again, for lack of a better term, was to be able to play a significant role in regard to the relationship Arab-to-Arab that was taking place in regard to what else was happening.

But it was very clear that I was told, as the other people were told—the "other people" being Mr. Clifford and then Bob Altman—that Kamal Adham was the Saudi intelligence chief. I never verified that on my own, obviously.

Senator KERRY. Now, after you left government, apparently you traveled to Pakistan on a diplomatic passport?

Mr. LANCE. There was a brief period of time that I had a diplomatic passport still. But that was a relatively short period of time, as I recall. My subsequent friend, Mr. Safire, had a lot to write about it. You know, I remember the title of that column. It was "X00065," and that was the number of that passport. And that happened to be my height. I'm glad they didn't put my weight on there. But I recall that it was my height that was issued to me when I was Director of OMB.

But that was a relatively short period of time. I don't know that I even traveled on that passport, Mr. Chairman. I may have.

Senator KERRY. The reason I ask it is because there have been all kinds of insinuations, innuendo, and allegations about intelligence. Here you've got Kamal Adham and this or that. I'm just trying to sort out who was doing what for whom under what guise.

Were you traveling in any official capacity for the U.S. Government then?

Mr. LANCE. No, I was not. And I'm sorry if I misunderstood you.

Senator KERRY. Now in the deposition taken of you by lawyers for the Middelndorf group when the suit was taking place on Financial General Bankshares and the takeover, Mr. Altman was representing you at that time. During the questioning on the trip you took to Pakistan to meet with Mr. Abedi, Mr. Altman objected to your having to answer a question, and the question was what was the primary purpose of your meetings with Mr. Abedi in Pakistan.

Is it inappropriate that at this point in time, since that is now some 12 years or so ago, to ask you what the purpose of the trip was and why Mr. Altman would have objected to your answering that question?

Mr. LANCE. No, sir. I really, it's not inappropriate for you to ask me. I don't know that I have any better answer than I would have had at that point in time. So why don't you ask the question the way that you want to.

Senator KERRY. Well, I think they have. Why did you go to Pakistan? What was the purpose?

Mr. LANCE. Well, now, I made more than one trip to Pakistan.

Senator KERRY. But in March, in February and March 1978, you went there to meet with Mr. Abedi.

Mr. LANCE. That's correct, and Sheikh Zayed.

Senator KERRY. And that was the meeting that occurred?

Mr. LANCE. Yes, because that was, again, as I said, bustard hunting season, as I recall, in Pakistan, and Sheikh Zayed was in residence there. But there was no foreign policy implication or anything involved in regard to the trip. I really don't know why Mr. Altman would have objected to that at that point in time.

Senator KERRY. All right.

The reason I'm sort of wondering and I'm trying to get at this is there was a memo sent to Mr. Abedi by Mr. Sami, whom you've mentioned, regarding the January 30, 1978. This was prior to the visits. But what this was regarding was the whole situation regarding the takeover effort of Financial General Bankshares. He did a summary: "The situation of acquisition of Financial General Bankshares is as follows:" Paragraphs 1, 2, 3, 4, 5, and so forth, through paragraph 14, and then signed Abdus Sami.

Paragraph 11 of that memo, which I think you now have in front of you, says: "In view of the possibility of this contest and also for presentation of the holding company application to Fed, our friend"—and it's our understanding from sources that "our friend" refers to you—"advised us that we may retain Mr. Clifford as chief counsel, the preparatory functions being handled by Mr. Metzger's firm.

"Accordingly, I met Mr. Clark Clifford and explained to him our strategy and our goal. He was happy to know the details and has blessed the acquisition."

Then, in the next paragraph, No. 12, "In the next few days we would start putting together material for a tender offer. To keep individual ownership to below 5 percent, we have to distribute the ownership to four persons of substance. We have already given the names of Sheikh Kamal Adham and Mr. Fulaij. We want two other names immediately.

[The information referred to follows:]

Financial Section

000101

23750 AHA PK
886500 BCCILHBOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBITAD 129

LDN/3811 DT 30.1.78 CD

TO: AGHA HASAN ABEDI
BANK HOUSE
KARACHI

THE SITUATION OF ACQUISITION OF FGB IS AS FOLLOWS:-

1. BY TODAY WE WOULD HAVE ACQUIRED OR CONTRACTED TO ACQUIRE ABOUT 17 1/2 (SEVENTEEN AND ONE HALF) PER CENT SHARES, THIS INCLUDES SHARES OF GEN. OLMSTEAD'S FAMILY ABOUT 4.5 PERCENT. THE AVERAGE COST FOR 13 1/2 PERCENT SHARES AS ABOUT 12.75 AND OF THE GOS SHARES IS 15.
2. BESIDES MR. JACK STEPHENS AND MR. METZGER HAVE ABOUT 5 PERCENT SHARES, WHICH WE CAN BUY NOW OR LATER. IN ANY EVENT THEY WILL GO WITH US. FOR THIS PURPOSE THE STEPHENS GROUP IS NOW BROKEN UP, THE MEMBERS HAVING EITHER SOLD THE SHARES OR BEING NON COMMITTED.
3. THIS BRINGS OUR ACTUAL STRENGTH TODAY TO ABOUT 23/24 PERCENT.
4. MR. CASEY HAS A BLOCK OF 8.6 PERCENT ABOUT SALE OF WHICH HE IS STILL UNDECIDED, OF THIS HE HAS GIVEN A CONTINUING PROXY OF SUBSTANTIAL NUMBER OF SHARES TO MR MIDDENDORF. OUR FRIEND HAD A TALK WITH HIM AND CAME BACK WITH A FEELING THAT MR CASEY WILL NOT GO TO THE OTHER SIDE. HOWEVER THIS BEING CRITICALLY IMPORTANT TO US, I HAVE REQUESTED OUR FRIEND. TO CONFIRM IT IN OUR FAVOUR BY A PROXY OR OPTION TO PURCHASE AT A PRICE.
5. THE CONTESTING GROUP OF SAUL AND MIDDENDORF AND FRIENDS HAVE CLOSE TO 17.5 PERCENT. BESIDES THEY HAVE MANAGEMENT CONTROL. AS OF NOW THEY ARE IN A CONTESTING MOOD AND HENCE CASEY'S IMPORTANCE FOR US.

RECEIVED
AND
17 JAN 1978
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

1781

MATTER FURTHER.

000105

7. IF THIS MEETING IS FRUITFUL OUR FRIEND WOULD IMMEDIATELY THEREAFTER TALK TO MIDDENDORF INFORMING HIM OF OUR STRENGTH AND ALSO OUR DESIRE THAT THEY GO ALONG WITH US EITHER BY SALE OF SHARES TO US OR ALTERNATIVELY COOPERATE IN OUR DESIRE TO MAKE A PUBLIC TENDER AND THE ANTECEDENT ARRANGEMENTS FOR PASSING ON CONTROL TO US.
8. IF MIDDENDORF AND SAUL AGREE TO SELL (AND THIS MAY BE AT A PRICE) WE NEED NOT GO FOR TENDER OFFER AND ACQUIRE MAJORITY BY BUYING SOME MORE SHARES FROM THE MARKET.
9. IF ON THE OTHER HAND SAUL AND MIDDENDORF DO NOT SELL AND ALSO DO NOT GO WITH US THEY WOULD CONTEST ANY POSSIBLE TENDER OFFER OR OUR ATTEMPT TO TAKE OVER MANAGEMENT CONTROL. THIS THEY CAN DO BY CONTESTING THE DESIRABILITY OF ACQUISITION BY FOREIGNERS FROM THE POINT OF VIEW OF FINANCIAL AND OR MANAGERIAL ABILITY AND OR LOCAL SENTIMENT AGAINST PASSING ON CONTROL TO A FOREIGN GROUP.
10. THIS WOULD BE APPARENT IF AND WHEN THEY TAKE THE FIRST STEP BY GOING THROUGH APPOINTMENT OF NEW DIRECTORS IN THEIR MEETING OF FEB. 23RD NOTWITHSTANDING OUR NOTICE THAT THIS BE POSTPONED. NO DOUBT OUR ATTORNEYS WILL ATTEND THE MEETING AND ASSERT OUR RIGHTS - AS APPROPRIATE
11. IN VIEW OF THE POSSIBILITY OF THIS CONTEST AND ALSO FOR PRESENTATION OF THE HOLDING COMPANY APPLICATION TO FED OUR FRIEND ADVISED THAT WE MAY RETAIN MR CLIFFORD AS CHIEF COUNSEL, THE PREPARATORY FUNCTIONS BEING HANDLED BY MR METZGER'S FIRM.
 ACCORDINGLY I MET MR CLARK CLIFFORD AND EXPLAINED TO HIM OUR STRATEGY AND OUR GOAL. HE WAS HAPPY TO KNOW THE DETAILS AND HAS BLESSED THE ACQUISITION.
12. IN THE NEXT FEW DAYS WE WOULD START PUTTING TOGETHER MATERIAL FOR A TENDER OFFER.

COPIED AND SEGREGATED
 AT REQUEST OF
 FEDERAL BUREAU OF INVESTIGATION

1788

TO KEEP INDIVIDUAL OWNERSHIP TO BELOW 5 PERCENT WE HAVE TO
DISTRIBUTE THE OWNERSHIP TO 4 PERSONS OF SUBSTANCE. WE HAVE
ALREADY GIVEN THE NAMES OF SHEIKH KAMAL ADHAM AND MR
FULAIG. WE WANT TWO OTHER NAMES IMMEDIATELY. UNDER
SECURITIES AND EXCHANGE REGULATIONS WE ARE ALSO OBLIGED TO
REPORT TO COMMISSION AS WELL AS FINANCIAL GENERAL DETAILS
OF PURCHASERS. WE REQUIRE THEIR BIODATA AND POWERS OF ATTORNEY
FROM THEM. WE MUST HAVE THIS EARLY THIS WEEK TO AVOID
POSSIBLE LIABILITY ON MR METZGER AND PURCHASERS. WE HAVE TO
BE CAREFUL THAT OUR NAME DOES NOT APPEAR AS FINANCIER TO
MOST OF THEM FOR THIS ACQUISITION. THE NECESSITY OF FILING
THIS RETURN HAS ARISEN ON ACCOUNT OF CONCENTRATION OF OVER
5 PERCENT IN THE HANDS OF METZGER, HIS KNOWLEDGE AND OUR
INTENTION TO ACQUIRE CONTROL.

14. I AM SORRY THE TIME SCHEDULE IS TIGHT AND MAY ENTAIL YOUR
VISIT OR OTHERWISE CONTACTING SHEIKH KAMAL AND
AND A FEW OTHERS.

I AM AWARE IT WOULD BE INCONVENIENT TO RUSH YOU BUT COULD THIS BE
DONE DURING

3/5 3/4 DAYS AS THE MATTER IS OF SOME CONSEQUENCE TO US
IN WASHINGTON.

REGARDS

ABDUS SAMI

CORRECTION: PLEASE READ FOR THE LAST TWO BOTTOM LINES AS...

DONE DURING THE NEXT 3/4 DAYS AS THE MATTER IS OF SOME CONSEQUENCE
TO US IN WASHINGTON.

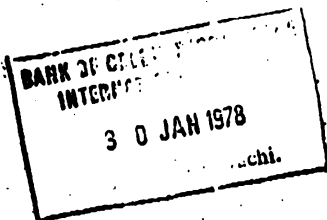
REGARDS

BANCRECOM LONDON

4789

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886500 BCC/LH 88
23750 AHA PK



Senator KERRY. Now, that seems to comport with the notion that the effort was then to try to get Sheikh Zayed to put up two sons or to get two other people to join into this. Is that fair? Is that the meaning of this?

Mr. LANCE. That's not my understanding of what actually took place.

Now, obviously, I have seen this document in recent days because of other people that have asked me about it, and I have made the same response to them that I'm getting ready to make to you.

It was my understanding that before I went to Pakistan at that period of time, that Sheikh Zayed was already one of the investors. I don't know, Mr. Sami and I never had a conversation along these lines.

Senator KERRY. Well, that may well be. The question obviously here is that there is a statement that Mr. Clifford has blessed the acquisition in a form that appears to be one to purposefully avoid the 5-percent problem and find a lot of people to spread around less than 5 percent, so that you actually wind up with a group, as you have referred to it, that is trying to make a purchase at less than, and wind up with a greater percentage.

Mr. LANCE. And I understand that, as I'm sure that you do.

But let me hasten to say to you that I think that the record at some point in time will show that the intent always was that there would be some sort of total offer for Financial General. And so, the 20 percent in my mind—and, again, I'm only talking about what my state of mind was at that point in time—that really was immaterial, because you were going to cross that level anyway if you went ahead and made some sort of tender offer or some sort of total purchase of Financial General, which was always my understanding that ultimately they would do.

This was in the very early stages, and I guess that—well, I shouldn't guess, but if you want me to I will—I would guess that Mr. Sami's concern was that he didn't want to have happen what ultimately happened fairly quickly in regard to being accused of hostile takeover and having a group that exceeded 20 percent, and so forth and so on, because of purchases that were being made at that point in time, as I recall.

Now, I was not involved, Mr. Chairman, in regard to the actual purchase of the shares except with several conversations that took place, some of which I think are referred to in that document about Mr. Casey, for example, who was a major shareholder of Financial General and a big, big shareholder of the class A shares, as I recall. I had a relationship stemming out of the NBG relationship with General Olmstead, so I had conversations with him about that instance, and so on.

But, basically, I think that you will find that all of the acquisitions of shares were basically handled by Mr. Sami, and he was the man who was responsible. I was not involved in that.

Senator KERRY. We now been joined by the chairman and Senator Pressler.

Mr. LANCE. Senator Pressler, Mr. Chairman.

Senator KERRY. We've gone chronologically so far. I think it's been helpful to do that. But at this point I want to ascertain

whether the chairman or Senator Pressler have any opening statement they want to make or any questions up until this point.

Mr. Chairman?

The CHAIRMAN. I have no opening statement at this point. But I appreciate your having these hearings and moving them along. I don't have any questions.

I am quite happy to see Mr. Lance and we wish you all well.

Senator KERRY. Senator Pressler, I'm going to let Senator Brown question first, but if you want to make a statement, that's fine.

Senator PRESSLER. OK.

I'm not a member of this subcommittee, but I'm here just to fill in some blanks in my own mind. I commend the chairman and ranking member for their work and the witness for his openness. I will have some questions or I will submit them for the record.

Senator KERRY. Well, let me turn to Senator Brown for questions at this point.

Senator BROWN. Thank you, Mr. Chairman.

Mr. Lance, you had served here in Washington before I came to town. My recollection of those years was that you were battling with some outrageous deficits of \$20 billion, \$30 billion, \$40 billion.

Mr. LANCE. That's correct, sir.

Senator BROWN. At the time, I thought that was irresponsible.

Mr. LANCE. I understand.

Senator BROWN. Since then, the standards seem to have been revised somewhat. But time does seem to put things in perspective.

Mr. LANCE. It depends on whether you're pitching or catching, I guess, Senator. At that point in time, we were trying to do both.

Senator BROWN. Well, more so here than out in the real world.

I have followed you with some interest for many years and I add my appreciation to your coming today.

If you wouldn't mind—I know this is pretty basic—but you could help us put this in perspective, or at least help me put it in perspective. Looking just at the piece of this puzzle with regard to the National Bank of Georgia, if I understand it, part of the concern here is a pattern of buying banking interests in nominees' names, rather than disclosing BCCI's interest.

With regard to the National Bank of Georgia, I take it, in looking back at it, though you didn't know it at the time, that part of the problem here was that the purchaser was really a nominee for BCCI?

Mr. LANCE. No, sir. I hope I haven't given that impression—

Senator BROWN. No. I'm trying to nail down—

Mr. LANCE [continuing]. That I thought that at any time even up until now.

What I tried to say was that I can understand with subsequent events where you may reach that conclusion, other people may reach that conclusion, and that, in fact, may be the truth. And I know again that that's what we're all seeking to find out because I'd like to know the truth.

But everything that I saw take place and everything that I was told related to the fact at that point in time that Dr. Pharaon was acting on his own behalf and not acting on behalf of BCCI.

See, where I have difficulty, Senator Brown, is the fact that I would have not hesitated to have BCCI try to get Fed approval. I mean, I don't understand that part of the whole thing.

Was there something there that they couldn't get approval about? Or what were the circumstances? Dr. Pharaon wanted to acquire NBG. He was able to acquire it. He had to get change of ownership control and all of the other regulatory things. But I never saw any reason if it had been, in fact, BCCI in transaction, why they would not have done it directly, because there was no secret about BCCI out there. BCCI was a part of those lawsuits. BCCI was noted in the press. Every time they mentioned me, they mentioned BCCI, I think, at that point in time. So there was no secret about it.

For that reason, I guess I assumed at that point in time and I assume to this time that these were people who knew what they were doing, ostensibly, from the standpoint of making an investment.

Senator KERRY. If you would just yield for a moment—

Senator BROWN. Sure.

Senator KERRY[continuing]. Didn't the Bank of America's 30-percent ownership make that impossible? I mean, it was impossible for BCCI to do it directly.

Mr. LANCE. That may be correct, Mr. Chairman. I expect that it probably is.

Senator KERRY. I mean, that's the answer to your question.

Mr. LANCE. It may be. I expect that that does answer the question.

But it was also my understanding at some point in time along in there that Bank of America was divesting themselves of the investment.

Senator BROWN. Well, these are pretty basic questions.

Mr. LANCE. I didn't mean to take that long to try to respond.

Senator BROWN. No, no. I assume Dr. Pharaon financed his purchase of the stock. I realize this is a number of years ago, but do you recall, did BCCI finance this purchase?

Mr. LANCE. It's my understanding, Senator Brown, from documents that I saw in the last week or so, that in the proxy statement there was the declaration that BCCI had, in fact, financed part of the purchase price. I don't remember what the amount was. As I said, I was not in a management position at NBG. So I really didn't see those documents. I didn't have any role in having them prepared or anything of that type. But I saw a copy of the proxy statement. I'm not sure I'd ever even seen it before. But I was handed one a couple of weeks ago and they pointed that out to me. That's in there. So that's a matter of public record that was there.

So the answer to your question is yes, I think that's correct.

Senator BROWN. My recollection is that, this time, during this period there was, and I suspect still continues, a limitation on the amount, on the percent of a stock transaction, a banking stock transaction, that's financible. In other words, this is not something you can loan 100 percent on. At this point or period of time, it would have been something in the neighborhood of 50 percent that's financible.

I assume that applies only if it's a publicly traded stock. But the National Bank of Georgia was publicly traded at that time.

Mr. LANCE. It was. Yes, the National Bank of Georgia was publicly traded.

I would not think, for example—and, again, haven't thought about this in a long time—but I do not think, for example, that BCCI would be subject to whatever the U.S. regulations might be, if any, as a percentage of the stock value that they would loan.

Do you understand what I'm trying to say?

Senator BROWN. Yes.

Mr. LANCE. That BCCI, being a foreign entity, that they wouldn't be bound by margin requirements in the United States and what have you.

Senator BROWN. I was trying to figure out why this method of operation, going through nominees rather than purchasing directly, and the chairman has obviously indicated the potential problem with the Bank of America. But even over and above that, would being registered as an owner of U.S. banks have an implication with regard to review of BCCI itself? Is that a possible reason here?

Mr. LANCE. Well, yes, sir. I think that, obviously, if BCCI had been the entity that had gone the approval route for ownership, then obviously they would be subjected to the regulatory requirements that would be imposed on other holding companies, and what have you. And that may well be a reason if that exists.

As I said, I think the chairman did have the proper response as to why BCCI probably didn't do it at that point in time, because of the Bank of America ownership, that they would be precluded from it.

But my idea about it always was look, you know, go to the regulators, and if you get approval, OK. If you don't, you know, OK.

But that was obviously not the decision that was there. And, as I say, again, we're talking in nuances from the standpoint of the different hats that Mr. Abedi wore that I understood, that he had this hat that I described, and another hat and another hat. And so, always I guess the bottomline of it is that there was a relationship with BCCI that the regulators had full knowledge about. They only had to read the newspaper in order to find that out, that here was a commonality of stock ownership. You had Mr. Pharaon, who was purchasing NBG, but he also was a shareholder in BCCI. That's a relationship. His investment adviser, for lack of a better term, again, was Mr. Abedi, who was the founder and managing director of BCCI. So you had all of these recurring relationships that were there.

If I had been the regulators and had been the other folks involved, I would have questioned what was the BCCI relationship just as a matter of course. As things went ahead, I guess at some point in time that was questioned by certain regulators.

Senator BROWN. One of the things we'll be looking at later this week is the background knowledge that Mr. Altman and Mr. Clifford may have had with regard to BCCI and their activities.

I introduce the question that way because, if I understand it, they acted as your counsel through part of this.

But I wanted to try to get a handle on what information they would have had through your experiences. If I understand what's

been said here today, you indicated that they were involved in getting some background on the principals here and that they were involved in the whole process you went through with regard to the 13(d) situation with the SEC.

Mr. LANCE. That's correct.

Senator KERRY. Any other involvement?

Mr. LANCE. Well, yes. I did not bring into the chronology how all that took place. If I have your permission, this might be a good time for me to try to do that, to put it into proper perspective, again, from a chronological standpoint.

As I said, Mr. Clifford had taken on the chore of representing me on Labor Day weekend in 1977, when I was subjected to real attacks in the press by certain Senators and what have you. And so, he had agreed to represent me as things progressed from that point on. That did progress fairly rapidly.

When I went to him after that, in October, about Mr. Abedi and BCCI, obviously it made sense to me, again from my own personal viewpoint, that, ultimately, that I thought that Mr. Clifford ought to be Mr. Abedi's counsel in regard to what he was doing. I had, and have, great respect for Mr. Clifford, and it made sense that he had knowledge because of his representation of me. He had done the due diligence that he reported back to me on from the standpoint of BCCI and Mr. Abedi.

So, somewhere along the way, I brought Mr. Abedi to Mr. Clifford's office and introduced Mr. Abedi to Mr. Clifford and to Bob Altman. Mr. Clifford then, as now, was very precise in everything that he did, and his manners and actions, and so forth and so on. He's not changed any from my observation of him at the House Banking hearings. He was very precise in talking to Mr. Abedi and saying to him: Look, I think that what you're talking about makes sense here in the United States, that sort of relationship.

Now, I have to tell you that my impression—and that's all that it was because of just my knowledge at that point in time—is different than what Mr. Sami has in this cable or telex or whatever it was, where he says that he's reached agreement with Mr. Clifford to represent BCCI.

I thought that that had taken place really in a little bit different manner, in effect; that I said to Mr. Abedi: Look, it's my recommendation that you retain Mr. Clifford as your counsel, again, wearing these different hats that were there. I don't know where it was actually said as BCCI or in relationship to your representing individual investors, that sort of thing. But that was my recommendation.

I really thought that that took place sooner than this, just from your standpoint. I don't know that that's material or it makes any difference. But that's the way it all came about, because I felt strongly—would be a pretty good term—that Mr. Abedi needed the guidance and direction of somebody like Mr. Clifford.

Senator BROWN. Any other contacts that you're aware of between BCCI and the events that led to the acquisition of First American or what turned out to be First American?

Mr. LANCE. Let me, if you will, maybe move on just a little bit past the litigation area and so on and sort of bring again back to you what had happened to Bert Lance in the process of timeframe

considerations and that sort of thing, which I, again, think will raise questions or maybe answer some that you already have thought about.

In 1978, as I said, basically, that was putting out fires, litigation, depositions, all the things that make lawyers happy, and so forth and so on. During that period of time, there were other actions taken that I am aware of that I can simply just tell you in passing, so that you'll know what my recollection is.

I ultimately was a "Humphrey-Hawkins Act for lawyers" in my own legal problems. I had more than I knew what to do with. This situation in 1978 sort of became a Humphrey-Hawkins Act for attorneys in New York and Washington, and what have you, because Mr. Clifford and Bob decided that, with the SEC action and so on, that the whole group needed—again, I use that word in the context in which I have tried to explain to you—needed professional counsel that knew something about securities and all this, that, and the other.

That was when the Wachtel, Lipton lawfirm was retained, and Marty Lipton became the lawyer who was involved in overseeing the depositions and so on.

It again made sense to me that, if you're going to do things in the United States, that you need to try to get people who are knowledgeable, who know what they're doing, and know how the process takes place in this country. And so, ultimately, Kidder Peabody was retained as an investment banking consultant in regard to this. I know that you're aware of that.

So that sort of thing was going on at the same time.

During that period of time, there were visits back and forth to London. I cannot tell you how many times, but there were several visits that were back and forth in talking about the litigation and what was happening, and trying to keep Kamal Adham and people who were the shareholders informed. As I said, I didn't know any of them.

Well, basically, that carries you through 1978, I guess, from the standpoint of the calendar year itself. All the time that that was going on, I had my own difficulties that were very well-known in the press that were taking place. I was the subject of many investigations that had started as a result of my testimony to the Senate and what have you in September 1977.

There were grand jury investigations going on in Atlanta, and so on. So I had to start thinking about what was going to happen to me in that regard.

Basically, to again just—I'm not proud of it by any means—but to give you again the chronological aspects of what was taking place, I was indicted on May 23, 1979, as I recall, and I will not be like some of the press folks have been. I was also acquitted on April 30, 1981, after a 16-week trial, which was the longest criminal trial in the history of the northern district of Georgia.

Sometimes the acquittal part seems to get lost in the process when they write about me, and I do not think that's appropriate or proper. So I have a built-in sensitivity to have to make sure that that's thoroughly understood, that I was acquitted, after having gone through that process.

But, beginning in, well, I guess from a personal standpoint I knew all the time that what ultimately would take place was what did take place. I thought that ultimately I would be indicted and that I would face trial and that ultimately I would be exonerated and acquitted.

But you can imagine that, from that standpoint on, beginning in late 1978 and early 1979, there were tremendous leaks coming out of the grand jury in Atlanta about what was going on. It was sort of like every day there was a story: well, the indictments will come down tomorrow; if not tomorrow, next week—and that sort of thing.

So, basically, in all of 1979, I was out of the picture as it related to BCCI, as it related to Financial General, and so on. Those things went on that related to the acquisition of the stock. Senator, I'm really not qualified to testify to you about all those things because those were not firsthand knowledge to me. I had my hands full. So I was trying to take care of that matter first and foremost. And that was what I did.

Now, subsequent to the indictment and the trial and the acquittal, after the acquittal, then it was obvious that, as I recall, from keeping up with the press coverage and what have you, that the acquisition of Financial General was going forward. I wanted to at least have some resolution of whether or not I was going to be involved any further in anything relating to Financial General or just what the case might be.

And so, I guess that, again, you have the records, and I won't try to quote a definite timeframe situation, but I think it obviously was some time in 1980, when the application that is in question—in question, being what facts were disclosed—was filed by Mr. Clifford and Mr. Altman.

Is that correct, that it was in 1980? [Senator Kerry nods affirmatively.]

The truth of the matter is that, at that period of time—and I think that decision had already been reached by basically Mr. Clifford, Mr. Altman, and I'm sure by Mr. Abedi at their behest—that “Bert Lance was too controversial to be involved in the situation any further,” and I would bring down the wrath of the regulators and all the powers that be because of any involvement and so on.

So, from that point in time, basically mid-1980, I really played no further role in regard to Financial General, BCCI, and what have you. That became a situation that, because of that feeling, because of that circumstance, that I was not involved.

So my actual participation, I guess, actually stopped in 1979. For lack of a better time, I'd say midyear or something of that type.

Now, my relationship with Mr. Abedi, from the standpoint of personal relationships, moved forward from that point on. And, while I was not involved in any form or fashion as it related to Financial General, National Bank of Georgia, or BCCI, as a banking entity, I did continue to have conversations and visits with Mr. Abedi. If you'd like for me to pick up in a chronological situation from that point on, I think perhaps I can do it, if that's what you want me to do.

Senator KERRY. But I think not at this moment, unless Senator Brown wants to do that. I'd rather come back to some specific areas.

Mr. LANCE. OK. But basically, that took place in 1980, after my trial and acquittal in Atlanta, that I was too controversial to be involved. So I had no role.

I might add, just as a freebie, I was never contacted or asked any questions about anything before the Federal Reserve.

Senator BROWN. What did it cost you to prove your innocence? You certainly don't have to answer that question.

Mr. LANCE. Oh, no, no, sir. I'd be glad to. It's hard to tell. Specifically, \$1,226,000 for just the legal fees. That doesn't mention 3 years of sterility of being able to do anything and impotence in regard to being able to do anything except worry about your own hide in that regard.

So it was a costly experience. The Government spent, as best I could tell, some \$7 million or \$8 million. That was a large amount of money at that point in time, because it's been several years ago, as you said, when deficits were only \$25 billion or \$28 billion. So we can see the difference.

Senator BROWN. Those were the irresponsible deficits.

Mr. LANCE. That's correct.

Senator BROWN. The responsible ones are now.

Mr. LANCE. I understand. [General laughter.]

Senator BROWN. Well, you might have been better off if you were guilty.

Mr. LANCE. Well, that's an interesting comment. Would you allow me the privilege of commenting on that since you raised it?

I've often had those feelings because there's something wrong in our country, Senator, that relates to people who win in that process, win being acquittal.

The system itself is skewed so that innocence becomes an aberration. You're not here to talk about the justice system and so on; I'd like to have that opportunity some time, at some point in the future.

You see, what happens in our system, if you're guilty, then you get rehabilitated, and everything is great. You know, you make a sudden comeback and so on.

When you get acquitted, then, you know, the system messed up and so you're always suspect. I feel very strongly about this subject, that there is something we talk about in this country. We've had a public debate about the death sentence. But there's also a living sentence that is involved. I happen to not be complaining about it. I simply say to you, as a matter of fact, that I've been under the living sentence for the last 14 years. I have great respect and admiration for Senator Danforth. He sat on my committee in September 1977, and he was tremendously fair to me, and I appreciate that and treasure that. But I noticed with great interest the other day during the confirmation hearings for Justice Thomas that he said it had been 103 days of trauma, tribulation, and things for Justice Thomas. You really ought to try 14 years, and you'll get a little bit different perspective.

That's what I've been subjected to.

Senator BROWN. Thank you.

Senator KERRY. Thank you very much. Senator Pressler.

Senator PRESSLER. Let me just ask a couple of questions on matters that I have been following.

These are not unfriendly questions just things about which I am curious—

Mr. LANCE. I understand.

Senator PRESSLER [continuing]. And if you've already covered them, please say so.

Now you were a consultant, as I understand it, to ICIC, which was BCCI's affiliate in the Grand Caymans. How much did they pay you and for what services?

Mr. LANCE. Senator, let me respond to you in regard to this, and I don't want you to misunderstand my reluctance to respond to that question.

I recently was subjected to an SEC deposition in regard to this whole situation, and it appeared to me that the purpose of that process was nothing but harassment of me. They wanted to spend all their time talking about that. All that is a matter of public record that was covered in regard to all the depositions and everything else. Most of it, the information, is also a part of the overt acts of my indictment.

I have to tell you, honestly, that sort of got away with me whenever they kept talking about that. And so, I'm in the position, strangely, of having said to them I'm not going to talk about that because I don't think that's appropriate. So it's not appropriate for me to come along and then talk to you about it when I refused, because of the circumstances, to talk to them about it. I want you to understand where I'm coming from about that.

All of that is a matter of the public record.

Senator PRESSLER. OK.

Senator KERRY. Let me just say, Senator Pressler, that I had agreed with Mr. Lance that I really didn't think it was necessary for this committee to go back through the very process he has just alluded to—

Senator PRESSLER. OK, fine.

Senator KERRY [continuing]. In the context of his answer to Senator Brown's question. I think it isn't really what the committee is interested in.

Senator PRESSLER. OK.

Now, in Mr. Clifford's book, he notes that, after you left the Government and returned to Georgia, for a time flew Mr. Altman to Atlanta once a week to counsel you. For what period of time did Mr. Altman continue to provide counsel to you, and during this period on how many occasions did you discuss BCCI with Mr. Altman?

Mr. LANCE. Let me try to respond to those several questions.

I don't recall that he actually came every week to Georgia. We talked on the telephone a lot, Senator Pressler, during that period of time, obviously because they still represented me in regard to all the different things that were happening to me. And so, I had numerous conversations with Mr. Altman.

Now, at a certain point in time, they felt like that I ought to retain other counsel with regard to the criminal charges that I perhaps was facing, and so forth and so on. Obviously I did that. I re-

tained Nick Chivlis, in Atlanta, to be my counsel there, and also had a Washington counsel that was recommended by Mr. Altman that you probably have run into during the course of these hearings, Hank Shulte, who has been a former assistant U.S. attorney here in Washington.

But I was not say that, I'm not questioning what Mr. Clifford writes, you understand. I just don't recall Bob Altman coming to see me every week because there wasn't a whole lot to talk about.

But, when I met with Bob Altman, we obviously talked about Financial General and things of that nature.

Senator PRESSLER. OK.

Mr. Chairman, I may have some more questions for the record.

Senator KERRY. Thank you very much, Senator Pressler.

Let me try, if we can, to focus again on sort of BCCI and the relationships that it had and some of the things that you learned.

One of the questions that keeps arising is the relationship that BCCI apparently had with the intelligence community, intelligence sources, and so forth. It's my understanding that you—well let me ask it this way.

Did Mr. Abedi ever discuss with you the Central Intelligence Agency?

Mr. LANCE. Yes, he did, Mr. Chairman. That's an important part, I think, that ultimately will relate to this whole circumstance of what you're looking at and what the ultimate conclusion may well be.

Senator KERRY. When did you first hear of any intelligence link to BCCI through Mr. Abedi?

Mr. LANCE. It was in 1983, I believe, in the fall, about this time of the year. I had—let me go back just 1 minute, if you don't mind, just simply from the standpoint of giving you the whole of the circumstance.

Senator KERRY. That's fine.

Mr. LANCE. There has been much made about the fact that I introduced Mr. Abedi to President Carter. That took place in August 1982.

I did that for two basic reasons. One was at that point in time, Mr. Abedi had a young daughter who probably was 8 or 9 years old—if that's a reasonable guess. He always had said that he wanted to have the opportunity to have a picture made with her and him and Mrs. Abedi and President and Mrs. Carter. That was one reason for the visit.

The other reason was that, at that point in time, President Carter was seeking funding to build his library, and he was traveling all over the United States, as well as the world, in order to accomplish that. I felt that Mr. Abedi would be possibly a benefactor of the Carter Library, which he turned out to be. I thought that, in addition to that, that he and President Carter had a commonality of interest in regard to what President Carter wanted to do with the rest of his life, and that was to deal with the circumstances of hunger and health around the world, predominantly in the African countries, and that Mr. Abedi had banking institutions there and could be helpful.

That was the beginning of that relationship.

I went with Mr. Abedi and Mrs. Abedi and the daughter to Plaines in August 1982, as I recall. We went, we landed in Albany. This was, I guess, my only trip on the famous BCCI airplane at that point in time.

We drove to Plaines and went to President Carter's house. There was an immediate relationship that developed between the two of them. You could sense it as they talked to each other there in the living room of the Carter residence. That was where that relationship began.

As a result of that, Mr. Abedi did, in fact, make a contribution to the Carter Library, and, frankly, I'm not sure what the amount was. I've heard different amounts. Whether it was \$500,000 or \$800,000, I really don't know. But there was that contribution made without any fanfare, without any blowing up about it, or anything of that.

President Carter then moved on to the idea of conflict resolution in regard to the Carter Center that he established in conjunction with Emory University. He and President Ford had a symposium, I believe in October 1983, at Emory University campus—the library was not built at that point in time—and it was the beginning, as I said, of the conflict resolution idea that President Carter I think has been very successful in regard to. He invited people from the Middle East and so on to come and have a program and symposium and debate and things of that type on behalf of him and President Ford.

Mr. Abedi came to that meeting. During the course of that meeting was the first time that Mr. Abedi ever talked to me about intelligence activities of the United States.

Now, let me say to you as a prelude to that that it was very obvious in the meetings that I had had with Mr. Abedi previously that he was extremely well versed in what was going on around the world; that he had relationships with world leaders; that he obviously had access to intelligence activities that were taking place in regard to the Middle East and what have you. I assume that that either came from Kamal Adham or perhaps Ghaith Pharaon, which I was not sure of what intelligence relationships he might have. But he obviously had access to them. He spoke in world terms and so on.

We went to the Carter Symposium and it was the beginning, I think, of worthwhile activities. As I recall, it was the first thing that President Ford and President Carter had done. When we left, I drove Mr. Abedi back to the hotel in Atlanta. I think he was staying at the Ritz Carlton in Buckhead. It's a 15- or 25-minute drive from Emory University over to the Ritz Carlton.

During the course of that trip, Mr. Abedi said to me, he said I want to talk to you about something and I want to tell you something that at some point in time may have great importance.

I had always listened to Mr. Abedi whenever he prefaced anything by that sort of remark. And I said well, this would be a good time for you to tell me what it is that you want to tell me about. And he said well, this is very, very important and you need to be aware of it. He did not explain why I needed to be aware of it. He simply said that he wanted me to be aware of it and not to forget it.

What he said was, and I basically am paraphrasing him now, he said: From the precise moment that Ronald Reagan was sworn in as President of the United States, I have been on the CIA Watch List. And my every movement, my every act, whatever I do, personally as well as through BCCI, is noted, watched, observed, under surveillance of the Central Intelligence Agency.

He expressed concern, as anybody would, I think, under that sort of circumstance. I could I guess relate to some of that concern because I know what it's like to be the focus of that sort of interest and investigation and what have you.

He mentioned that he had been not harassed—at that point in time it was not a good word. It might be different today in the circumstances that we face. But he had been harassed at points of entry here in the United States whenever he tried to enter, things of that type; and that this was a matter of grave concern and he wanted me to know about it.

I guess I showed my lack of sophistication and ignorance in regard, to respond to him because I said: Well, why, Mr. Abedi? The obvious question is that you say that this has happened. Why would you be subjected to this sort of surveillance and interest by the CIA beginning at a certain point in time?

And he said something that was very interesting, Mr. Chairman. He said: You have to understand that I fall into the category of being a Third World liberal; that I'm concerned about problems of hunger, social concerns, housing, medicine, that sort of concern in the Third World. And I, in my own way, have tried to do something about that; and I have a concern that is well known, and I deal and I'm involved with people around the world who philosophically also would be described as liberal Third Worlders.

And he says: I would think that that's in total opposition to what this administration—being the Reagan administration—would be interested in, and that I'm some sort of threat around the world because of my activities, and because of the growth and development of my bank, and because of what my concerns are.

I thought that was a plausible explanation and a reasonable explanation, and that pretty well was the end of that conversation. I filed that away in my mind because it was really what he wanted me to do.

I've thought about that incident an awful lot, especially as you've had these hearings as it relates to what has taken place in regard to all these accusations and facts and so on about BCCI and Mr. Abedi. I think that played a major role at some point in time in the history of that relationship.

I have my own thoughts about that. It's not fact, but it's my own thoughts. And if you want me to tell you what they are——

Senator KERRY. I'd like you to share your own thoughts. You've admitted it isn't a matter of factual certainty. But you are a thoughtful fellow. You've been around government. You know how these things work and I'd like to hear your thoughts on it.

Also, I just want to ask you as a preface to that, did there come a time when you perceived that Abedi's attitude and concern about the CIA had significantly changed?

Mr. LANCE. Yes, sir, totally and completely.

Senator KERRY. Would you pick up there.

Mr. LANCE. That was a fairly obvious thing, as best I could determine. This was determined in meetings that I would have with Mr. Abedi from time to time. This was not on a regular basis or anything of that type.

He had exhibited and evidenced concern, not fear in the normal sense of the word "fear," but he had certainly shown concern about this being "on the Watch List." Those are his words. I have no intimate knowledge of the way that they do things and so on. So I don't know whether that's proper. But that's what he thought.

And so, therefore, there was this great concern. There was an uncertainty about BCCI at that point in time.

Subsequently, beginning in 1984, I would say, I sensed a change in Mr. Abedi, that he no longer had any concerns about visits to the United States, that he showed no concern about his ability to start banks, if that's the proper term, in countries around the world, whereby at some point in time in the past he had talked to me about the difficulty in banks being formed vis-a-vis mainland China, for example, whereby, subsequently in 1977, I guess, he opened the first bank owned by a foreign interest in mainland China. All of a sudden that disappeared. There were no longer conversations about that.

Senator KERRY. You say "all of a sudden." About what period of time?

Mr. LANCE. I would say beginning in 1984 and then subsequently; that he had an assurance, he had a sense about it. We never discussed the CIA again, and I'm convinced, from my own personal knowledge of Mr. Abedi, that if that were still a problem to him, Mr. Chairman, he would have articulated that to me, because he and I did talk about that sort of thing, and we did talk about that sort of concern.

I know that if he still had those concerns, at some point in time he would have articulated it and said something about it.

Senator KERRY. And he never did articulate again a similar concern to you?

Mr. LANCE. No, sir, he did not.

Senator KERRY. On the contrary, he exhibited a kind of confidence and almost impermeability to any kind of intrusion by CIA or anything else?

Mr. LANCE. And no limitation about any visits to this country or anything of that type.

Senator KERRY. Whereas previously, he was very nervous about traveling here, isn't that accurate?

Mr. LANCE. He was nervous about traveling here and he, in effect, as I said, "harassed" is not probably the proper word, but as you well know, there are ways to make people feel welcome or unwelcome. It was very clear to me that, at that point in time, in his entry to this country, he was not made to feel welcome. He was put into holding rooms from time to time, that sort of thing that he actually talked about. I don't know whether he was ever searched or anything of that type. I didn't pry.

Senator KERRY. But he never again had occasion to complain to you that that had happened?

Mr. LANCE. No, sir. He never mentioned the subject again in any form or fashion.

Senator KERRY. Have you ever met Abdur Sakhia?

Mr. LANCE. No, sir, I have not.

Senator KERRY. You've never had a conversation with him by phone or otherwise?

Mr. LANCE. I've never had any conversation with him to my knowledge.

Senator KERRY. Did you hear his testimony yesterday?

Mr. LANCE. I did not. No, sir.

Senator KERRY. Well, the record should show at this point that, yesterday, Abdur Sakhia, on his own, made precisely the same observations that you have and heard the same conversation from Mr. Abedi, to the effect that he told Abdur Sakhia and other members of the bank that he was concerned about the CIA, concerned about the capacity to travel, and that he was on the Watch List, and that just about at the same time you have described, that cloud seemed to be lifted and he displayed an optimism and so forth.

So your observations are confirmed, in fact, by somebody who worked with him for 13 years and was a member of the bank.

Let me ask you, now. You said you wanted to make some personal observations or conclusions.

Mr. LANCE. The personal observation that I drew in my own mind as a result of those conversations—and let me hasten to add, I've never had that conversation with anybody connected with BCCI. I've never said to anybody who was an officer or any involvement with BCCI that here is what Mr. Abedi told me. He told me that in confidence, as far as I was concerned. He said: I'm telling you this because I think you ought to know it. So I've never had any conversation with anybody about that particular element of what happened.

I don't recall that I have ever even had a conversation with Mr. Clifford or Bob Altman about that in regard to what Mr. Abedi said. As I said, this is not fact. This is my supposition, and I think it's something that your committee has the power, and I hope the ability, to reach out and make some conclusatory finding about the circumstance, because I think it's important to all of us, as Americans, to know exactly what takes place.

I understand the need for covert activities, and I appreciate that, and I respect the fact that intelligence is awfully important. But at some point in time, I think the record ought to be made very clear as to what the role of our intelligence agencies really are.

I think at some point in time—and if I had to pinpoint a time, I would say in 1984—I think there was obviously an overt effort by our intelligence agency to, for lack of a better term, to coopt Mr. Abedi and BCCI and, in effect, turn them into the bank of the CIA. I have no facts about that. It is a conclusion that I have reached because of things that I have had happen to me, that I know about circumstances and so on.

Senator KERRY. I want you to share one of those instances, what happened to you.

Mr. LANCE. All right, sir.

The circumstance of why I say that I have reached that conclusion is that at a certain point in time in 1981, as I recall—it may have been late 1980, but I think it was more in 1981—I had differ-

ent visitors in Calhoun, GA. Calhoun is a wonderful place, but not a whole lot of folks want to have to make that trip just for the fun of it because it's 70 miles north of Atlanta and so forth and so on, and it's not in a major marketplace that people visit and so on. So I've been highly complimented from time to time to have people come to see me in Calhoun.

But during 1981, I had what I characterized as people who had some sort of intelligence background visit with me. This was something that was obviously interesting to talk about and to hear about and so forth and so on. There was very little I could do about it.

There was one gentleman who I think is very well known to those who deal in intelligence matters, by the name of Mr. Specter, who came to Calhoun and told me about various and sundry things that had been happening to him, and so forth and so on. He obviously, I guess, just felt a kinship with somebody who had experienced some trauma and trial and what have you.

But during the course of that event, there was a gentleman who came from London. I do not remember his name. I could not probably identify him to you today if he were in this room. He ostensibly was there for the purpose of saying that he knew that I represented people from time to time who had the capacity to make investments; that he had a hotel in London that was for sale; and that there was a good opportunity, a classic opportunity, and what have you; that he would appreciate any response that I might be able to bring forward from anybody in that regard.

And he said during the course of that conversation that sooner or later I ought to meet a certain individual who was a world class businessman, and that he felt sure that our paths would cross at some point in time in the future.

I noted again what he said and moved on about my business in that regard. He left, and I subsequently never heard from him, and I have, to my knowledge, not seen him since then.

The time came and went. That introduction to President Carter took place in 1982, in August. But in January, as I recall, in 1982, we had a Young Presidents Organization meeting in Hawaii that was unique in the fact that the YPO group happens to be a group of shakers and movers and doers, and vigorous, youthful executives, and so on. They, at their universities, like to put together people who cause things to happen.

And so, Peter Ueberroth and Chris Hemeter or people that I had known in YPO when I was a member—I don't fall into that category I just described to you, Mr. Chairman, but the others do—Chris Hemeter called me and said would you talk to President Carter about coming to the YPO University. We're going to have President Ford, and this will be a great opportunity for former political rivals to get together and talk about the process, and so forth and so on.

There were a lot of other people that were there. Bob Strauss was there. After him, you don't need anybody else, I guess, in that regard. Dr. Teller was there, Davy Jones was there, Larry Silberman was there.

Senator KERRY. So it was a big and well-attended event.

Mr. LANCE. It was a big, political grouping, I guess. Really, I guess you might say that it was President Carter's coming out party, again, for lack of a better term, after the election of 1980. During 1981, as you recall, he didn't get out an awful lot, and so on.

So this was important, I thought, for a lot of different reasons. This was a program that he did appear, and that took place. During the time that I was there, on Maui, I had a call from the gentleman that I had been told that I might meet some time. He said: I am at the Kapalua Bay Golf Club and would like the opportunity to visit with you and so on. Therefore, I've got a car and driver, and I'll send somebody over to pick you up and we will have a chance to visit, and so on. I said that would be fine because it was the name that I had been given previously by the visitor.

Senator KERRY. Let's get back. Now you had this mysterious visit. I want to try to clarify this.

You'd had a mysterious visit in Georgia twice, correct?

Mr. LANCE. I had more than that, but those are two that just came to mind.

Senator KERRY. You had a number of visits. These were folks that you immediately sort of pegged as being intelligence types, correct?

Mr. LANCE. That's correct.

Senator KERRY. One of them gave you the name of a guy that you really ought to meet on some occasion?

Mr. LANCE. That's correct.

Senator KERRY. And nothing happened for 1½ years.

Mr. LANCE. That was basically—well, it was not that long. It was probably in 1981. So it was 6 or 8 months.

Senator KERRY. Lo and behold, you turn up at this Young Presidents meeting. President Carter is there; President Ford; and this fellow, by the name of Bruce Rappaport appears. Is that correct?

Mr. LANCE. That's correct.

Senator KERRY. And you knew that was the person that you had originally been told about by this mysterious person who came to see you.

Mr. LANCE. That's correct.

Senator KERRY. OK. Then what happens?

Mr. LANCE. Then I went and met with him and we talked about a lot of different things. He obviously was and is a world class businessman. We developed a friendship at that point in time. He obviously likes to play golf; I like to play golf. We played golf at different places.

He made it very clear to me that he had a very close and definitive relationship with Mr. Casey, the Director of the CIA; that they went back a long way; that they had numerous contacts, and what have you; and that this was an important relationship to him, and so forth and so on. That basically was the type, circumstance, that was there.

I drew my own conclusions after all of the other things happened with regard to what Mr. Abedi told me, with regard to what I perceived to be a change in his attitude, again for not having a better term to describe it; that, because of the relationship that Mr. Rappaport had with Mr. Casey, that there was an interest in what my

relationship might be with Mr. Abedi on the one hand and what my relationship was with President Carter on the other; that there were numerous opportunities given in the course of conversation; that if, in fact, I was in the company of anybody who mentioned Mr. Casey, that if anybody in the Carter administration or Carter circle of friendships would know anything about the hostage problem or anything else, that more than likely I might be one of those; that the perception was, whether that's real or not, that I was close to President Carter, that we had a friendship that transcended my being a part of his administration and causing him some grief and turmoil in the process.

I guess that the common application of my own thought process, Mr. Chairman, that I put to that was that, if I had any information or if President Carter had any information, that I would make some reactive statement whenever Mr. Casey's name was mentioned, and so on; that that would be something that would be natural, and I would say well, you know, I'm delighted that you have a relationship with Mr. Casey, but I don't happen to think much of the situation about this, that, or the other.

That really was the—there was never any definitive circumstance there.

Senator KERRY. But you sensed at the time, you told us you sensed at the time that this was a defined, purposeful, intentional effort to try to elicit from you some kind of information and also to sort of send you a signal. Is that not accurate?

Mr. LANCE. That's my—yes, sir. That was my feeling.

Senator KERRY. You felt that back then?

Mr. LANCE. That was my impression. I don't know about the sending of a signal. The sending of a signal may have been, you know, on the other hand, that if I had certain information or knowledge, then I would certainly, probably articulate it.

Senator KERRY. Just in terms of sort of the circumstances that we're dealing with here, and as you said, this is very complex. It is very, you know, it's supposition at the time, and there are only sort of little threads that seem to connect and come together. But they're fairly significant when you put the pieces together.

Mr. Rappaport owns the Inter-Maritime Bank in New York—correct—and did then?

Mr. LANCE. In Geneva, I believe, Mr. Chairman.

Senator KERRY. Well, there is a New York—

Mr. LANCE. Actually, my understanding was that the Bank of New York subsequently acquired an interest in the Inter-Maritime Bank in Geneva. If they have an office in New York, I'm not familiar with that.

Senator KERRY. And Mr. Alfred Hartman is a director of BCCI and head of BCP, which is a BCCI subsidiary, and also serves on the board of Rappaport's bank.

Mr. LANCE. I read that in a Wall Street Journal article by Mr. Truel. I don't have individual knowledge of that relationship.

Senator KERRY. But, without knowing of those links, without even knowing that somebody who was a very significant friend of Bill Casey's had a link to BCCI through interdirectorships and so forth, without knowing any of that, you, on your own, and without knowing that Mr. Sakhia had these feelings, without knowing that

there was a \$10 million payment to Khashoggi, without knowing that there were CIA bank accounts, as now acknowledged in documents and so forth, without knowing any of that, you, on your own, drew the conclusion that this relationship had changed, and the conclusion you drew was that there had actually been a coopting, an overt outreach to Abedi, that he was comfortable, he knew the CIA wasn't going to bug him, that he could kind of move his operations with a certain sense of confidence. Is that accurate?

Mr. LANCE. That is totally and completely accurate, Mr. Chairman. That is my view and that's the conclusion that I reached as a result of my own experiences.

Senator KERRY. Now let me go back. We're going to wrap up here fairly soon and only will have to do a morning session here.

Let me ask you about a link of that. A Mr. Irvani, an Iranian businessman, was one of the original shareholders, was he not? Do you know who he is?

Mr. LANCE. No, sir, I don't believe I do.

Senator KERRY. You don't know him?

Mr. LANCE. Do you have any further description of him?

Senator KERRY. Well, when you were involved in the original Financial General Bankshares takeover effort, you were leading that effort. This is back in 1977-78.

Mr. LANCE. Yes, sir. I would say that's a fair characterization.

Senator KERRY. It's my understanding that Mr. Irvani, who is an Iranian businessman, was one of the original shareholders in that original Financial General Bankshares takeover effort. You don't recall him as being such?

Mr. LANCE. No, sir, I do not. I don't recall ever even hearing his name.

Senator KERRY. It is our information that he knew Mr. Abedi very well and that he, in fact, had a consulting firm in Washington, together with Mr. Richard Helms, ex of the CIA.

You weren't aware of that?

Mr. LANCE. No, sir. That's new information to me.

Senator KERRY. The questions are asked for a very obvious reason. There's no secret here. The question is did this bank somehow gain an immunity or an impunity for its actions, its capacity to be able to act with impunity? Was there a reason that, after the CIA sent memos to agencies of the U.S. Government indicating that it had knowledge this bank was illegally owned, and indicating—or illegally owned First American as far back as the early 1980's—and knowing that Senator Paula Hawkins had information about money laundering as early as 1984, somebody had to have informed her of that. It was raised with General Zia in Pakistan, and the FBI was on notice because somebody said there wasn't an investigation. I mean, all of this raises the significant question, again, of why this all went on.

When you see the \$10 million to Khashoggi, and you see the fact that the CIA had accounts there, the question just leaps up at you once again: did other interests of some individuals or agencies get in the way of other interests of U.S. policy being furthered? That is at the core of my comments at the opening of this hearing of what this committee began to look at and it's the core of the questions about this bank that are still on the table here. :

We don't know. I don't have the answer whether or not there was this relationship. We'll hopefully learn more about it.

But there are certainly some key indications that something was going on there. Would you agree with that?

Mr. LANCE. I agree totally and completely, Mr. Chairman. And I would add, further, that, as you said that I used the term "mystified." I think that the people who knew Mr. Abedi at the point in time that we were talking about earlier, in the early 1970's, are truly mystified by what has developed as a result of this.

Now, it may be that BCCI is, from the outset, a criminal organization, something that is bad, something that is wrong, and all of that. I don't know that. I don't have the knowledge that relates to all that.

But I can only tell you that I, in my own thought process, think that the questions that you have raised and the comments that you have raised are questions that ought to be answered. Whatever the answers are, then that's the way that it will be.

But I think that it's proper, I think it's appropriate, I think that you and your committee are doing not only this country a service, but you're rendering a broader service about activities around the world of a global nature that relate to financial institutions, the confidence in financial institutions that is so critical, and things of that nature that become all important.

So I hope that you will find the answers. I think that, obviously, it ought to be awfully easy to disprove what role and what involvement the CIA may have actually had with regard to BCCI.

Senator KERRY. Well, the CIA admits it had a role. They have publicly so stated. Mr. Kerr has agreed to be here Friday morning to explain to us more openly what some of that is. I might add that we had a telephone conversation yesterday, and he has suggested that there are certain areas that may, for traditional reasons, have to be conducted in closed session. We have certainly agreed that that may be true. But the committee is going to try to make some judgments after that about whether or not tradition is getting in the way of truth seeking or not. We'll find out.

Let me ask you a couple of other questions.

Mr. Rappaport—he appeared in your life. He was fairly persistent, was he not, in pursuing you for a while?

Mr. LANCE. That would be a fair characterization.

Senator KERRY. Describe it. What do you mean by that?

Mr. LANCE. Well, in the sense that he had gold tournaments in Europe that I was invited to, and we had occasion to visit when he was in this country and play golf.

Senator KERRY. He would call you?

Mr. LANCE. Primarily. I've called him. It's not a question of who called who, necessarily. I mean, we had a friendship relationship and that still exists, as far as I'm concerned.

Senator KERRY. And was it your sense, Mr. Lance, that he was trying to elicit from you whether or not you had information or Mr. Carter had information, or friends around Mr. Carter were concerned about or were pursuing the issue of the "October Surprise?"

Mr. LANCE. That's my impression, Mr. Chairman, that that was a critical element that related to the whole of the circumstances, and

that if anybody knew that happened to be close to President Carter, that perhaps I would know. Again, the irony of things continue to come back into full focus, and you realize that irony sometimes becomes a predictor of what will happen. And there's no question in my mind that Mr. Abedi had an international reputation for knowing circumstances in Iran, that he was well versed in what was taking place there. And, interestingly enough, the one subject that he and I never discussed, which I always have found to be very, very interesting as I try to filter things out in my own mind, is the fact that we never had a discussion about the hostage issue, the hostage situation in Iran. We never had any conversation about that.

I have been tempted to ask President Carter if he and Mr. Abedi ever had any conversation about it. I have resisted that temptation up until this point. But I have always found that very interesting.

But, again, you had the singular event of Bert Lance, who had a relationship with President Carter, who had a relationship with Mr. Abedi, being out there in full view and noted well in the press, and so forth and so on.

I think obviously—I may be totally and completely wrong, and it wouldn't be the first time that I've been wrong; I fall into that category quite frequently, unfortunately—but it's something that has concerned me. It's something that happened, in my judgment, to Mr. Abedi, and it may explain some of the things that have happened in regard to BCCI.

Now, let me hasten to say to you and to the public at large that none of that is license for illegal, criminal activities here or anywhere else in the world. I think that, whatever they have done that's of a criminal nature and bad things taking place, that certainly they need to be punished to the fullest extent possible. And I've got no problem about that.

I'm not here, Senator, as you well know, to defend BCCI. I'm here to tell you the truth, as I know it. I've told you the truth, as I know it. I may have left out things inadvertently. But I stand ready any time that I can assist this committee with regard to your seeking out the truth to tell you what I know. I will separate the two. I will tell you what I know and I will tell you what I speculate about, and there may be a vast difference between the two.

Senator KERRY. Let me ask you another question.

President Carter traveled a number of times with Mr. Abedi, didn't he?

Mr. LANCE. Yes, he did.

Senator KERRY. And he traveled a number of times on Mr. Abedi's plane, or whatever, to China, to Africa. Am I correct?

Mr. LANCE. Russia. In fact, he made a trip around the world that I recall, simply because I'm proud of what the process was. In 1977, Mr. Chairman, President Carter made a trip, in effect around the world, because he went to China. That was when Mr. Abedi opened his bank there. Then they ended up, they went back through Russia and ended up in Newcastle, England.

Senator KERRY. These span what years? These were sort of from when?

Mr. LANCE. This was a specific trip in 1977, because it was the 10th anniversary of the Friendship Force, which is an organization

that started in Georgia, when President Carter was Governor, by Wayne Smith.

Senator KERRY. Well, you introduced, you didn't introduce President Carter till 1982, to Mr. Abedi.

Mr. LANCE. No, I said 1987. Did I misspeak?

Senator KERRY. 1987?

Mr. LANCE. If I said 1977, I'm sorry; 1987.

Senator KERRY. So the trips from 1982 through the 1980's, correct?

Mr. LANCE. That's correct.

Senator KERRY. The reason I ask that is that I'm a little baffled. It's my understanding, I mean, we all know President Carter is a very thoughtful, intelligent, and disciplined person, and it's my understanding that he has always debriefed the President, the Secretary of State, and perhaps other people on each of the trips that he made.

Mr. LANCE. That's correct. That's my understanding.

Senator KERRY. And on each trip he would make, I gather he wrote a long memo to President Reagan, he wrote a memo to Secretary of State Shultz, and it's my understanding this continues with President Bush and with Baker, even more warmly, perhaps.

Mr. LANCE. I think that's a very warm relationship, and justifiably so, I think.

Senator KERRY. It's just curious to me that you have a former President of the United States briefing these high officials about these dealings with Mr. Abedi, but nobody turns around and says to Mr. Carter what the CIA knew, what the Government knew, what everybody else in the agencies had known from the early 1980's, that BCCI illegally owned a bank in America and that it was involved in money laundering, and so forth.

I mean, it seems like they kind of left the President, the former President, out there when they knew he was dealing with this fellow.

Mr. LANCE. I don't understand that, Mr. Chairman. I have the same feeling that you do. I think it's almost incumbent upon an agency of the U.S. Government that has access to intelligence information when obviously the recipient of that information would be a former President of the United States who knows all our secrets, about everything else, that he would not be advised.

Obviously, I'm sure that the CIA or anybody else would not want to be in a position of telling a former President who his friends ought to be. But I think that just common courtesy would go to the fact that you would say: Mr. President, you can have whatever friends you want, but I'm telling you that, you know, these are bad guys that you're dealing with. And, again, President Carter, in regard to the entire relationship with BCCI, has made no secret of that.

There have been members of the press that have traveled with him on the BCCI airplane. There always was somebody, always was somebody from BCCI present. And you would think that, somewhere along the way, somebody would have picked up the phone and said look.

I mean, it appears to me, the thing that I don't understand—I'll take it one step further—you would think that CIA would say

something to the Secret Service. President Carter still has Secret Service protection. And if he's running around with folks described as "rogues, thugs, crooks, criminals," and all the other descriptions that have been put forward about BCCI, you would think that the Secret Service would have an interest in knowing that also, since they are there for the purpose of protection.

So I don't understand that, and I think that's a legitimate question to be asked.

I have asked the question of President Carter in regard to what he had been told about the circumstance of the drug laundering charge in Tampa. He told me, as it appeared in the press, that Mr. Naqvi told him that it was an isolated incident involving a few officers of BCCI and that the Justice Department had assured them—"them" being BCCI—that there were no other charges or no other cases or investigations pending against them at that particular point in time. And he traveled on that information.

Mr. Carter, as I think all of us would agree, is not the kind of fellow that just goes out looking for trouble. And to keep on in a relationship with somebody who was perceived, or, in fact, criminal and what have you, he's not that kind of man, and he doesn't have that sort of thought process.

Senator KERRY. Well, I don't think anybody in the country questions that. I think it seems to me that there was, obviously, a very legitimate reason for the introduction back in 1982 and a very legitimate reason for the President to try to further the noble goals that he has been pursuing in his post-Presidency.

I want to try to bring this to a close.

Mr. LANCE. Sure.

Senator KERRY. There are a couple of areas that I want to go back to, if I can, for 1 minute, unless you had something you wanted to say here.

Mr. LANCE. All I was going to say in that regard is that, while there has been criticism of President Carter and the relationship with BCCI and Global 2000, there have been very, very effective things realized as a result of that relationship in health and hunger problems in the Third World countries, particularly in Africa. I just think that that ought to be acknowledged.

Senator KERRY. Well, I understand that.

I happen to be particularly sensitive to criticisms for associations one has with people that you know nothing about at the time that you are associating with them.

Mr. LANCE. I understand.

Senator KERRY. You learn something later and it can be embarrassing.

Mr. LANCE. That's a political risk that everybody carries.

Senator KERRY. Let me just ask you, have any investigators from the Government interviewed you now with respect to your experiences with BCCI?

Mr. LANCE. Yes, sir.

Senator KERRY. The first interview you had was with Bob Morgenthau's office?

Mr. LANCE. That's correct. That was——

Senator KERRY. In 19——

Mr. LANCE [continuing]. That was a little bit more than an interview, Mr. Chairman. That was an appearance before the grand jury.

Senator KERRY. I understand.

Mr. LANCE. So I guess that might fall into a little bit different category. You are a former prosecutor.

Senator KERRY. I was being euphemistic; you were very direct. That's 1990, correct?

Mr. LANCE. In September 1990.

Senator KERRY. What about the Justice Department?

Mr. LANCE. Yes, I had a visit from the Justice Department.

Senator KERRY. When did they interview you?

Mr. LANCE. I believe that it was the first Saturday in September. I'll tell you, I went through this process of explaining to Senator Percy about flying to a University of Georgia football game, and so I sometimes couch things in football references. But it was the day of the Georgia-LSU game, whatever day that was. I wanted to try to get through at least to listen to it on the radio.

Senator KERRY. So, the important thing is, putting it in a football context, the New York District Attorney interviewed you in the football season of 1990, and the Justice Department got to you in the next year's football season?

Mr. LANCE. That's correct. It was that period of time. That was the first Saturday in September 1991.

Senator KERRY. OK. When you left as the lead person in the takeover of Financial General Bankshares, you were replaced by whom?

Mr. LANCE. That's a good question. I think the proper answer to it would be Mr. Clifford and Mr. Altman.

Senator KERRY. How did you feel about your departure? Were you somewhat upset?

Mr. LANCE. That's hard to characterize. As I said earlier, I felt like the, despite the fact that—

Senator KERRY. We don't even need that. Let me not ask you to characterize that. It's not critical to this. But let me ask you, did you come to have a sense with respect to the relationship that you saw emerging in terms of the hats that Mr. Clifford and Altman were wearing? Did you sense a concern about that?

Mr. LANCE. My concern was twofold, in regard to—just because I cared about them, I cared about what was happening ultimately with Mr. Abedi and BCCI, and that was a personal concern, not a business concern—that sooner or later the problem of being counsel and then becoming management would just come back to be somewhat of a problem. I never expressed that to Bob Altman or Mr. Clifford. It was not my business. That was my personal concern, that that would be a problem, and the only time that I thought that a basic mistake was made, if you want me to discuss that just for 1 minute, in regard to the whole situation there, was, as I recall, a lawsuit filed because there was failure to disclose the names of the investors in Financial General, at that time, I guess First American, and I thought that was a real mistake.

I give the press of this country a lot of credit. Sometimes I'm critical because I think that that doesn't hurt anything. But I also give them a lot of credit in being able to find out answers to questions

and so on. And when there was a decision made not to disclose the names of the investors in First American, I thought that was a primary mistake because I thought, first and foremost, it would happen; and, second, it was creating a sense, it was creating a problem out there that didn't need to be created.

So those are basically the only two circumstances that I had feelings about.

Senator KERRY. Did you or anyone suggest to Mr. Clifford and Altman at any time or did you know whether or not they had reason to believe that there were nominee purchasers or shareholders with respect to the BCCI involvement in First American?

Mr. LANCE. No, sir. I've never had that conversation with any of them. And, as I say, the problem that is out there in regard to that is that BCCI was always present. I mean, I think that you have to cross that level at some point in time, and I don't think Mr. Clifford, from what I have seen and heard—and I don't want to be putting words into his mouth or anything—but I haven't seen him deny the fact that BCCI was there. What he says is that he, in effect, ran First American and made the decisions without BCCI direction or involvement. That's a question that obviously other people have to answer. I don't have an answer to that.

Senator KERRY. Mr. Lance, trying to sum this up a little bit, what is this—you've now caught up with a lot of the documents that have been public, a lot of the stories that have been written. You've got a pretty good sense of this thing because you've watched it evolve. You've been around it since the beginning.

What does it mean to you? What should it mean to us, and what is this all about, so to speak?

Mr. LANCE. I think it means, first and foremost, that we do have safeguards that are built in in our own system that sometimes fall into conflict with other cultures, other countries, and things of that type. And I think at some point in time we have to understand some of that.

Our system is the best, and, while it can always be improved, I think openness, candor, coverage by the press, the absolute guarantees that we enjoy make a big, big difference. I think, therefore, that, as a result, we ought to be wary of institutions that can develop without single regulators being able to overlook them as it relates to the confidence of depositors or investors. I think that's awfully important.

I happen to believe in the regulatory process, again, even though sometimes that appears to be a contradiction of terms. But I think that we need to learn from that, that confidence in the banking system, not only of this country but around the world, is a very, very fragile commodity, and that it's imperative that we protect that confidence through whatever means necessary; and the ability that we have here to ultimately find the truth about BCCI and let the truth stand on its own will serve as a model in the future.

I'm sure that there will be legislative changes that you perhaps will initiate. You have fought a lonely battle, as best I can tell, in regard to standing out, saying that these things are necessary to be looked at, to be resolved, to be answered.

So I think that there are regulatory changes that need to be made. I think that the regulators, in regard to BCCI specifically,

that they could have found out at the point in time, in 1981, whatever involvement BCCI had with First American, if that's the situation that we're particularly focusing on.

It would appear to me that that would have been doable. So I think that, by virtue of what chronology and timetables and efforts that you develop out of this committee, that in the future maybe that'll happen, and we'll be able to have a system that is able to enjoy confidence on the behalf of depositors and people around the world.

Senator KERRY. May I take your introduction of that to add to that something that really concerns me as we look at this.

It's not something that the committee has talked about a lot or I've talked about a lot. But this BCCI event underscores a transition that has taken place in the marketplace that public policy is way behind. International, regulatory and financial services oversight is way behind, dangerously behind.

Now that we truly are what everybody loves to mouth, an international marketplace, we need to think about a whole different set of rules about how that marketplace is going to work. This underscores that, that when you have the different cultural infusion, et cetera, if you don't have an ability to have oversight or manage, you are subject to whatever local rules or local culture wants to apply to that process. So it is that we still allow the Cayman Islands, Panama—notwithstanding the invasion, there is more money laundering today in Panama than there was before Noriega. And there are some 21 or 22 locations around the world that the State Department puts on a list every year saying these are big time movers of money. But nothing happens—nothing happens.

The reality is that we've got \$1.3 trillion a day—a day—moving through the two clearing systems of this country, the CHIPS and the Fed Wire. And nobody knows where that money's coming from, basically. Nobody knows the point of origin, who it belongs to, or what it is.

As long as you've got these huge sums of money moving the way they are, with all kinds of cardboard cutouts as fronts for a lot of the place of origin of that kind of money, you have a huge problem in terms of tax accountability, money laundering and law enforcement accountability, white collar crime, capital flight, all kinds of problems. It's a huge market, which is why all these banks were struggling to get it, because in float alone, there is huge profit.

Mr. LANCE. No question.

Senator KERRY. So the question is really whether people are going to be serious. The Basel Convention has adopted this glorious notion that the principle of banking that is most critical is to know your customer. The reality is there are just too many institutions out there that make a practice of not knowing their customer and even of hiding their customers.

We hold our banks in the United States to an extraordinary standard of openness and accountability. And yet, even a U.S. bank is permitted to open a branch offshore, and instantaneously avoid the very rules that we apply by their being onshore. So the question is whether we're going to work in the international marketplace while we still have some economic leverage left to exert to

try to guarantee that we're playing on a field where law enforcement agencies and others can really get at this.

If you can't, I'll tell you, as a former prosecutor, it's impossible to put together a case adequately, as we're even seeing in the course of this, that allows you to prove it without expending extraordinary sums of money.

Now with supercomputers, the software programs that are available, a lot of this can be done today. The fact is the resources haven't been applied and there is very little thinking going on to try to arrive at how this can be done with minimal intrusion, maximum flexibility to the marketplace, but also maximum accountability to the system.

I must say to you I think that that is really one of the other pieces that sort of leaps out in terms of system and accountability, which needs to be looked at as a consequence of this.

Then there are all the other aspects of it, such as foreign policy, CIA, intelligence, law enforcement, narco-trafficking, terrorism trafficking, arms trafficking, all the other pieces which are so much a part of BCCI.

Mr. LANCE. If I can comment on that, Mr. Chairman, I think that what you say is eminently correct. I happen to believe that good comes out of all things ultimately, and I think that one of the good things that will come out of this effort that you and others are making is that there will be a long, hard look at how you bridge these differences and how you insure the confidence and safety and so on.

I can't help but recall, I remember that Hugh McCullough, who was the first Controller of the Currency, I sort of wish I'd known him when I was having my travails with that office. He said something that I never have forgotten. He said to never deal with a crook in the hopes that you can outsmart him.

So, the crooks are going to be there and we're going to have to make sure that they are dealt with at the earliest possible moment, and so on, but that you don't bring down a system in just trying to deal with them, and then let all the other things happen that sometimes happen. I think that's one of the things that will come out of what you're doing in this regard.

I might say I don't know what the truth is about BCCI. I have the thoughts that I've expressed to you. I don't know what the truth is about Mr. Abedi. I have the thoughts that I have expressed to you and to your staff.

I hope that, ultimately, that truth will out, that we will all have a better understanding of what went wrong, of what happened, of the decisions that basic individuals made, right or wrong, and how it all comes about; because I think, ultimately, then, the system of finance around the world will be stronger, and be better, and will have much more confidence in it. And so, I think that's what you're doing, and I appreciate it.

As I said, let me, if I might have one just personal comment that I would like to be able to make one more time in the sense of where I am, I have told you what I know about circumstances. I will at any time that I can tell you anything else if a question is raised, I will attempt to do that in every forthright manner that I'm possessed of.

And as I said at the outset, it is a privilege for me to be before your committee. I feel strongly about that. I have been critical at times when criticism was, I thought, appropriate. But this is a system that works, and the Senate of the United States works, and the House works, and the Government works ultimately, and these are things that are important.

We all have our shortcomings and all of us fail the perfect test in regard to being just that. But I think it's important for you to have the ability to find out the truth.

In saying my last words on that subject, my son, Beverly, happened to come up with me here today. He wasn't sure that I was able to defend myself in this situation up here. But he said: Now one thing you make sure. He said: Every time I pick up the newspaper and every time I've heard the radio in the last 2 or 3 days, they have said that you're going to testify before Senator Kerry's committee and that the bottomline is that Bert Lance denies any wrong-doing.

I haven't denied anything because I haven't been charged with any wrong-doing in this regard whatsoever, and I've been subjected to a lot of innuendo and things of that type that I don't think really are appropriate in our country.

Senator KERRY. Let me make it very clear for anybody who is listening in your State or who has heard those previous notions that somehow you had to deny something. This committee didn't bring you here to ask you to deny anything, nor did it bring you here with a view that somehow you had something to deny.

We asked you to come here because we wanted to shed light on what happened. I hope nobody will characterize this as a sort of somehow your having passed some test or having had to be put on the grill in some way. I don't think this morning has transpired that way. It's not meant to be that.

Mr. LANCE. No, sir.

Senator KERRY. And I might add it's not meant to be that tomorrow with Mr. Clifford and Mr. Altman, either, or with any of the other people here. This is an effort—this isn't a courtroom—it's an effort to try to understand this. We have purposely not even proceeded in a way that tries to "make the case" one way or the other. We're trying to really put people on the record and get some answers.

Mr. LANCE. I appreciate the courtesy that has been extended to me.

Senator KERRY. Well, I very much appreciate your doing this. I wish you well and we appreciate your coming.

Tomorrow, we will commence at 9 o'clock in the morning, and we are in recess until that time.

Mr. LANCE. Thank you.

[Whereupon, at 1:06 p.m., the committee adjourned, to reconvened at 9 a.m., October 24, 1991.]

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

THURSDAY, OCTOBER 24, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:02 a.m., in room SH-216, Hart Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Simon, Brown, and Jeffords.

Senator KERRY. The hearing will come to order, please.

Good morning. Today the Subcommittee on Terrorism, Narcotics, and International Operations is going to hear testimony from Mr. Clark Clifford and Mr. Robert Altman, the former chairman of First American Bank shares, and formerly attorneys for the Bank of Credit and Commerce International.

Their testimony constitutes the eighth day of hearings of this subcommittee into the BCCI affair. And obviously, their role is a critical one in terms of trying to understand precisely what has taken place in the course of the last 12 years or so.

Their actions have already become the subject of widespread investigation, of Federal and local law enforcement, as well as Federal regulators, and other committees of the U.S. Congress, as well as this committee.

Both gentlemen have previously testified before the House Banking Committee concerning some of the matters under the jurisdiction of this committee.

Our intent today is not to try to repeat every single part of the testimony before the House, or all of the questions raised there—though inevitably there will be some repetition.

But we hope to try to broaden and to deepen the inquiry, and to cover a fair amount of ground that may not have previously been reviewed in public.

I would like to emphasize, on behalf of this committee—and I have tried to do this throughout the process—that neither the chairman, nor the committee, nor, I think members of the committee, have drawn conclusions or made statements that are conclusory, with the exception, perhaps, of one item—and that was the question of production of documents before the committee.

But as to who did what, when, or how, or who knew what, when, or how, or who knew what, when, or how, I must tell you I do not

think that we know enough yet. And that is precisely the purpose of this hearing.

I will say that I was somewhat surprised, even dumbfounded, on occasion, to listen to my colleagues in the House, many of whom I issued a verdict before they had heard any of the evidence.

I want to emphasize also that I do not view this forum as a perfect evidence-gathering forum. It is complicated. The inquiry does not allow us the kind of time, nor does the nature of the legislative and congressional process allow us the kind of inquiry that really is necessary, I think, ultimately, in allowing people to draw the ultimate conclusions here, using the words guilt and innocence to the degree that they enter into this.

What we are trying to do here is draw conclusions, based on facts that we can ascertain; and to ask some tough questions. And I think the committee is not going to pretend that there are not tough questions there. I think both of you have acknowledged that, and you understand that. And you have stated that you are well prepared to answer those questions, and to come before us voluntarily, without subpoena—as you did before the House—in an effort to do that. And we respect that, and we appreciate that.

There are many questions, obviously: How did a drug-corrupted, foreign bank manage to pull off whatever it did pull off? How many people did they take in as victims along the way? Why did BCCI want First American? What warning signs were present from early moments that might have drawn greater attention to BCCI? And were they ignored by anybody? Did BCCI and the Middle East front men who worked with BCCI have any foreign policy agenda, or any political agenda in purchasing a bank in Washington? Did the U.S. Government have any political, or policy agenda itself, or was it carrying out some sort of covert, or subvert effort with individuals? What were the responsibilities of those who worked for this bank, ranging from attorneys to accountants to officers, as they learned of facts that suggested that something was wrong? What were the responsibilities of accountants and lawyers to this committee, and to others, once a probe began, and once there was evidence of at least some people's wrong-doing?

In previous days of hearings, witnesses involved with BCCI such as Mr. Masour Rahman, who was the chief financial officer for BCCI, and Mr. Abdur Sakhia, the former head of BCCI for the United States both characterized themselves as victims; deceived by others, rather than as partners in the deception.

In previous testimony, Mr. Clifford and Mr. Altman have similarly described themselves in forceful terms, as victims of the criminality of others.

As I said earlier, our job here is to try to open a window on this affair. And I will insist that the committee do so in a way that is not recriminatory or in some way berating or ugly. I do not think that is the way we want to work, and that is not the way that we do work.

So let it be said, because I think it was said in the House, and I think all of us feel it, that it is not a comfortable, or happy occasion to have this kind of investigation. And I know that neither of the witnesses who have had distinguished careers, and who have been upstanding members of this community and who have made

major contributions, that neither of them are happy to be here, obviously—or comfortable with this situation.

But we are here. We have responsibilities. And the purpose of this is to try to shed light on this affair.

So I appreciate your willingness to be here, gentlemen. I know you have been through more depositions and meetings and presentations on this in the past month than you care to recite. And I hope today's hearing can be an important contribution to the process of truth-finding.

I would like to just make one comment, and that is that I picked up today's paper, after hearing yesterday of this event. And I must say that it upsets me. It concerns me. And that is the question of a 33-year-old White House aide who has now left the White House without prior legal experience of a significant kind, suddenly finding himself hired, as a former aide to John Sununu, to represent one of the principal litigants in this affair, Mr. Kamal Adham.

And apparently, he has gotten a fairly significant contract, to the tune of some \$600,000 for 2 years, to assist Mr. Adham in his efforts to deal with this matter.

I, personally, just from my own legal experience, must ask what someone without prior criminal experience, or major experience, who was prohibited from making contacts because of his recent employment, offers for that kind of money. And I think it is that kind of—that kind of link that raises so many questions in people's minds about Washington; about how this process works. And it just casts a cloak of suspicion over all of us, over the entire process. And I think the average American is sitting there saying what the hell is going on in the Nation's capital, with all this money passing back and forth?

I think it may raise more questions, as much of this does, than it gives answers. But so be it. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Mr. Chairman, thanks to your leadership, the web of secrecy that surrounded BCCI is slowly being removed. We are beginning to see a pattern of an international effort, which has involved many notable, well-thought-of people in this country, as well as people around the world.

Today we have witnesses that I think can provide some crucial information to us in this effort—witnesses who have not only been shareholders, but have been counsels to BCCI, and, indeed, officers of First American.

So I think the testimony today will bring to light, and bring out in the open a pattern of activity by BCCI, which will help us understand not only the method of operation, but how, indeed, they were able to achieve the remarkable results that BCCI did in accumulating the worldwide banking network.

So I think today's testimony will be crucial for us, not only in understanding the method of operation for BCCI, but I hope it will be helpful in understanding how we can formulate statutes that will protect this Nation in the future from an international banking organization that is bent on financing and promoting criminal activities.

Senator KERRY. Thank you very much, Senator Brown.

Gentlemen, by prior agreement with your counsel, the committee—we normally have 10-minute openings. But I understand that a significant amount of information has appeared publicly in recent weeks, since your last testimony. And you, understandably, have a sense that there is much you would like to answer to.

So by prior agreement, we are affording you 45 minutes to be divided, as you wish. And we look forward to hearing your opening statement.

I presume, Mr. Clifford, that you will lead off. Am I wrong?

**TESTIMONY OF HON. CLARK M. CLIFFORD; ACCOMPANIED BY
ROBERT BENNETT, ESQ., COUNSEL**

Mr. CLIFFORD. No, that's correct, Senator.

Senator KERRY. Can you pull the mike, for me a little bit closer? I think you'll find it—let me ask, I think, photographers, we had agreed, if you could, if you could move to the side so that it will not be distracting to the witness during his opening testimony.

I am forgetting my duty. Could you rise so I can swear you in, please? Would you raise your right hands? [Witnesses do so.]

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. CLIFFORD. I do.

Mr. ALTMAN. I do.

Mr. CLIFFORD. I listened with care, Senator, for your opening comments. And I thank you. We welcome the opportunity to be here today, and to present our side of the story.

Over the course of the past 9 months, the other side of the story, in great detail, has been presented day after day after day.

Our side has pretty well gotten lost in the shuffle. I had wished a time that we might have a newspaper so that we could publish what we know about the matter. But we don't happen to have that privilege. So we have to depend upon opportunities of this kind to get our story before the authorities, and hopefully before the American people.

From the day the Feds started their inquiry, we have cooperated with the Government. We got in touch with the Fed at once, after they began in January, with their uncovering of the facts.

We appeared for long depositions under oath before Federal counsel. Then next, we testified at length before the U.S. grand jury here. In all the years that I've practiced law, that's the first time I'd ever had that privilege.

And then we went to New York, and again, were questioned in long days of grueling interrogation by the staff of Mr. Morgenthau. Then, perhaps one of our next opportunities was to appear before the members of the House Banking Committee. And during the course of that day's hearing, I would estimate that we were asked questions by each of the 50 members of that committee.

We welcome this opportunity here today. This gives us a chance for you to know our involvement, and to ask us all of the questions that you wish.

The reason that we have chosen the policy of using every opportunity to present our case, is—to state it simply—our consciences are clear. It is very clear to me—I go back over the details of our

involvement. We have not violated any law. We have not been guilty of any impropriety. And so we make ourselves available at every opportunity so that others may know as clearly as we, of our participation.

As you might suppose, I have given a great deal of thought, this last 9 months, as to how I could permit myself to become involved in this controversy, with a group of persons from far-off lands. And in the process of my statement today, and in answering questions, I would hope that might reveal itself as to how I became acquainted with a situation which has been a new experience for me, after all these years of the practice.

If you are to understand what took place, from our standpoint, then I must tell you the story. I will do it briefly. But it's a very personal story. And I think that's one of the reasons that our participation has not been, perhaps, understood clearly, is that it has been such a personal experience for me.

Here, is quickly the story.

I met Mr. Abedi first in December 1977. I had been practicing law in Washington since I left the Truman administration in 1950. He was brought in by a former client of ours, Bert Lance. It was to be merely a social visit, and it was. He said that Mr. Abedi was a foreign banker; he had come to know him; that they had become friends; and he had a high regard for Mr. Abedi. And he wanted me to meet him.

I found Mr. Abedi to be a man of considerable charm; a man of slight build and stature; a very attractive manner; spoke perfect English—nothing of the promoter type about the man at all. One of the main subjects we discussed in that brief social meeting was the aim that he had for his bank, of providing the Third World with banking services which they had not ever had before. And that that had helped so in retarding the progress of Third World countries.

I found him to be pleasant and a man of importance. Thereafter, I'd hear from time to time that the little reports would sift in that Mr. Abdei and BCCI were in the process of acquiring stock in a company called Financial General Bank Shares. That's a bank holding company, centered in Washington. I had not heard of them before.

But we were told later by another principal character in our story, Sheikh Kamgal Adham, that he had first heard about Financial General from the public relations man in the Saudi Arabian Embassy. There had been a number of articles talking about Financial General, and how it was breaking up into cliques of shareholders; and how it was going through a very difficult time.

The man in the Saudi Arabian Embassy looked into it in some more detail, and concluded that it might be an attractive acquisition. Apparently, that was one of his functions in the Saudi Arabian Embassy, to pass information of that kind back to Saudi Arabia.

Kamgal Adham was a recognized, highly regarded businessman in Saudi Arabia. Kamgal Adham then said, after getting that information, he passed it on to Mr. Abedi. Mr. Abedi served as investment adviser to Kamgal Adham, and to a number of important and very wealthy Arabs. The fact is, they had produced the funds that permitted Mr. Abedi to start his bank. For he had a very close rela-

tionship with them, and maintained that during the course of the years.

When Financial General learned that some Arabs were acquiring stock in Financial General bank shares, they became concerned about it. They looked into it, and at that time, they found that four Arabs—good morning, Senator—had purchased each, about 4.5 percent of the stock, staying under the 5-percent limit. But it gave them a holding, among the four of them, of around 18 percent.

The owners of Financial General went to the authorities, and the SEC and said, we want you to look into this. These Arabs may constitute a group, and perhaps they should have filed.

Also, Financial General had a very efficient and effective New York law firm who brought a suit at once, in the district court in Washington, to prevent a possible takeover of their company by these Arab individuals. It was at that time that we were retained, our law firm—Clifford & Warnke—retained by Mr. Abedi, by the four Arabs, by BCCI, by Mr. Lance—anybody who was sued at that time, all came in together and retained our law firm. We went through 3½ years of the most strenuous litigation in that case. We also brought in an expert firm in the takeover field, Wachtell, Lipton of New York.

During that 3½ years, I got to know Mr. Abedi well, and I got to know Kamgal Adham well. A litigation of that kind is like being in a war. There is a series of battles—some of them you win, some of them you lose.

And you get to see men under stress, and under the different contingencies that follow that kind of litigation. I must say my regard for Mr. Abedi increased during that period of time. He evidenced a sense of fairness. He evidenced a wisdom about banking matters and all, that were really quite impressive.

During that time, gradually, fortune began to favor our side. And we got stronger, and the other side weakened. And after a while, I received a phone call from one of the principal figures in Financial General—a man you all may have known—Armand Hammer. He lived in California. I had known him from the Johnson administration. And he said Clarke, why don't we declare an armistice. He said, this war goes on interminably. And I'll come along and we'll sit down and talk this matter out.

And he did, and brought some directors over. And a day and a half, about, we sat in the office, talked it out from different arrangements. And then we agreed upon a disposition of it. We agreed upon a very fair price. And our investors and clients purchased 100 percent of the stock of Financial General, and paid cash for it.

Then we entered into a length period in going through the regulatory process. The purchase of the bank holding company had to be approved by the Fed, and by the regulatory agency in the States in which Financial General operated. We went through that regulatory procedure. The Fed, here in town, felt that the importance of the case warranted a hearing. So four of our clients came over from the Middle East and testified—representatives of the various States were there; representatives of the controller general. It was a good, long hearing that aired every detail of the matter.

As we were proceeding on in that regard, I became conscious of the fact that Kamgal Adham, whom we saw a great deal of—although he lived in Saudi Arabia, he spent a great deal of time in London. And we had developed a process of going to London at rather regular intervals during the litigation, meaning maybe every 3 or 4 months, something of that kind—keeping them very well informed; decisions had to be made, and so forth.

We continued on with that, because they indicated that they wanted Mr. Altman and me to continue to occupy an important place in the operation of Financial General.

Finally, it came to a climax. And at a meeting in London, with Kamgal Adham and Mr. Abedi, they said they had discussed the matter with the investors—that's what we called the shareholders—and they wanted me to become chairman of the board.

And they said why, they'd gotten to know us; they'd come to have implicit confidence in us. They were a great many thousands of miles away from this property that they owned. And they would feel comfortable if I would take over that position.

I asked a number of questions—would I be at the beckon call of the investors? By that time, instead of 4, they were 14. And they said not at all. And I said, will some investor call and say he wants us to make a loan to the ABC Company? And he said not at all. This is nothing more than a simple, financial investment on their part.

I said how do we get in touch with these 14 investors who have really become our clients, as owners? And they said, we've talked that out with them. And Mr. Abedi would be designated as the contact between us and the investors, along with Kamagl Adham. Kamagl Adham would refer to himself as the informal chairman of the investors.

That made sense to us. It would certainly make it more convenient to keep in touch with the investors, instead of having to do it with all of them. I agreed to do it. Now, why did I agree to do it? I was 75 at the time. There was nothing particularly interesting going on in the firm at the time. And this was a challenge to me. This was a company that had a real potential that was not being realized.

I had done work for banks over the years, off and on. And it was a challenge to me. It was another mountain to climb. And after satisfying myself that the arrangement was understood, I agreed to take it—only on the distinct and unequivocal understanding that as chairman, I would have total responsibility, and I would have total authority. I had learned that lesson in Government. The road to disaster is to take a job in which you have a high degree of responsibility, but you don't have adequate, or commensurate authority to go with it. They said that was agreeable to them.

The deal was made. I came back and started, at once, getting together the board of directors. I assembled the group of the most distinguished men that I could find. One of them was former Senator Stuart Symington, who had served with great distinction for 24 years in the Senate, now retired. He was my oldest, maybe my best friend. And I invited him to come in. He was delighted to do so. He was made vice chairman.

We agreed upon compensation with the board. I said that until we had proved ourselves, that I wished that to be very modest. And we wouldn't bother with that. We'd get to that when the right time came. And my salary was set at \$50,000 a year, and Symington's was set at \$20,000 a year.

We brought in other top-flight men—General Gavin, who had had a wonderful war record, a former Ambassador to France, and at the time serving as president of Arthur D. Little, investment advisory firm.

We brought in Elwood Quesada, who, together with David Rockefeller had made a great success of the L'Enfant Plaza Development. He had held three different positions in the Eisenhower administration—other men of that caliber.

I learned that—here's a great asset in the United States, that really was not being taken advantage of. Here were men who had had very successful careers, had gotten into their seventies, didn't have very much to do, and this really was a great and exciting opportunity to them. And we went to work.

I'm happy to say that our effort was an unqualified success. When we took over the company, its assets were \$2.2 billion. By the end of 1988, for instance, the assets had grown to \$11.5 billion. The deposits rose from under \$2 billion, to approximately \$10 billion—very significant at showing the confidence of the public and the bank.

Earnings—we doubled, in the first 4 years, and then in the next 2 years we doubled the earnings again. We were really beginning to roll.

Now, this was no ivory tower experience for us. This was a hands-on occupation. I took it as my first obligation—I then owned 12 small banks. I went to every bank. I got to know the boards and the officers, key employees. We made an analysis of each bank. We had an audit made of each bank. Some of them were undercapitalized.

And then we began to plan about strengthening these banks. We brought in new personnel—the fact is, that over the years, we've brought in a new CEO for every one of our banks. A number of those banks we consolidated. Others we sold off—they didn't fit our plan. We bought some excellent acquisitions—33 branches of Bankers Trust in New York, that gave us a splendid deposit base there. We bought a number of branches in Virginia, when two firms merged and had to divest themselves. But interestingly enough, most of the—most of the growth came from within.

Now, after 4 years of this, then we got to a point where we knew we were over the hump. And I thought the time had come for Mr. Altman and me to participate in the results of this very determined effort that we had made, that was proving to be so successful.

I took it up with the directors of the top-holding companies, CCAH. They said that they thought that was a great idea. We took it up with Abedi, and Kamal Adham. And they said we could participate easily in the next stock offering to shareholders—if all of the stock was not subscribed to by then, under the bylaws we could subscribe to stock. We did that in 1986, and became shareholders.

I'm watching my time, Mr. Chairman, so some parts of it, I must move over quickly.

I wish now to turn to the results of our efforts. In an effort to give the committee a quick sketch of the manner in which we conducted the banks, over a period of 9 years, here were certain standards that we set, and here is the result: One, there were no financial improprieties; two, no fraudulent lending practices; three, no account manipulations; four, no money laundering; five, no improper payments to BCCI; six, no lavish, executive purposes; seven, no lack of regulatory supervision—we maintained the closest relationship with the Fed, and it was a most pleasant relationship; eighth, in the 9 years, no U.S. taxpayer bailout, no bank had to be taken over; and ninth—but not last by any manner of means—no shareholder of First American has ever lost one penny.

Have we been deceived by what we've learned later? If all that we read about, this poisonous, constant stream of misconduct, if that is a true statement of what this bank did, then we have been grossly deceived. We never saw that. We never sensed that.

I don't suppose it's much comfort to us, but during this 9 years that we did not know what was going on, the fact is that we learned from reports, neither did the Bank of England, who had the right to examine them at regular intervals. The Bank of England apparently was deceived. A matter, most curious, we read—their own auditors, Price Waterhouse, apparently were deceived.

I read some place authoritatively, that for the years 1987, 1988, and 1989, Price Waterhouse had given to BCCI that very intriguing British expression: "the accounts are fair and accurate."

A former Prime Minister of Great Britain served BCCI for a substantial period of time. Apparently, they had developed a relationship with former President Jimmy Carter. How could it have been known to me? The past explanation was offered by somebody who has been into it very deeply, is there were really two banks: One was the outer bank, and that's the one that we saw. And that's the one that we dealt with. And that's the one in whom we developed confidence through these 9 years.

The other was an inside bank that was unknown. We never saw it, we never sensed it. I've thought about it so many times. Did we miss any signs? Should we have sensed it? I would give anything if we had, and it would have saved us, really, from this—this dreadful, painful year that we've been through.

But as I near the end of my time, I want to say when it all comes down, and I keep reading that Clifford knew, somebody says—then they say, well how do you know he knew? Oh, well, we don't know it, but he just had to know. A witness recently said he just couldn't have run First American for 9 years and not know. I've heard it over and over again. I speak up, all of you with your experience know how difficult it is to disprove a negative. Somebody says you knew, how do you prove that you didn't know? We've done our best in that regard, but it is a difficult process.

But here, I think is the final point: apparently that BCCI corrupted everything it touched. That's what we read about. It corrupted banks, it corrupted government—we read; thousands of people, depositors have lost; and we begin to get some notion from

the constant outpouring of news, of the manner in which it was able to corrupt so many different areas in the world.

The question is, did it corrupt First American? And that's really of great moment to us, and of great moment, of course, to this committee that has made such a deep and exhaustive investigation into it.

Did it corrupt First American? Not in any way. Do I ask you to take my word for that? I do. My word has been important here for a great many years in Washington. And I ask you to take it. Because I know that they did not corrupt First American in any way.

But I also, in addition to that, ask you to take the word of the Federal Reserve. You've heard Virgil Mattingly, the general counsel, testify—he has said they discovered through the years, no financial improprieties existing within First American. William Taylor, whom we regard as the chief enforcement officer, testified at no time were they ever able to find any improper payment to BCCI or any improper financial relationship with BCCI.

Recently, Mr. Robert P. Black, the president of the Federal Reserve Bank of Richmond, which has jurisdiction over First American and all the banks in this area, testified. I think I can end on no better note than just some selected sentences from Mr. Black's testimony when he testified under oath before the House.

Each of these is significant. Each of these is significant to the committee. First quote: "Examination and inspection record between 1982 and late 1988 is clear. Neither the reports of our First American inspections, nor any of the reports of examination prepared by other Federal and State regulators, contained comments or criticisms regarding involvement of influence by, or improper payments to BCCI."

The second: When new disclosures involving BCCI occurred in 1991, an indepth inspection of the First American organization was initiated. A total of 52 examiners from all 12 Federal Reserve districts, with an average experience level of 8 years, expended in excess of 7 manyears on this examination. And what did they find?—I'm getting near the end—quote, "And in delving into these records, we have found no evidence of influence and control, or any indications that he banks were involved in any attempt on the part of covert owners to influence others. This investigation is ongoing, but preliminary findings have disclosed no abuse of the banks, or significant exposure on the part of First American to BCCI."

And then this is his final sentence. "Simply put, no connection between the bank's lending practices and their unauthorized ownership by BCCI has been uncovered."

Under the arrangement that we've had with the chairman, I would take the majority of the time. Mr. Altman will present some portions of it that will fill out the mosaic, and he will limit himself to 10 minutes.

Senator KERRY. Thank you very much, Mr. Clifford. Mr. Altman.

TESTIMONY OF MR. ROBERT A. ALTMAN

Mr. ALTMAN. Mr. Chairman, Senator Brown, members of the committee, Senator Simon, Senator Jeffords, good morning.

I'm pleased to appear here this morning to assist the committee in this inquiry into the matter involving BCCI and First American. I am particularly appreciative of the chairman's reports at the outset of the hearing this morning, regrading the balanced and reserved approach that this committee is adopting in this inquiry.

And after offering these brief remarks, I look forward to presenting factual information, in response to the questions that you have. I also hope that I would have the opportunity during the course of the day to correct some misinformation, and some unfounded speculation which has been introduced into the record of these proceedings.

Many people wonder how Mr. Clifford and I came to find ourself in the midst of this controversy. And we hope to be able to shed some light on that question today. I think perhaps we can begin to examine that question by looking at the historical context of this case.

There is an unfortunate tendency to view the events of the past through the distorting prism of sensational reports about BCCI that appear today. And to understand our dealings with BCCI, one must evaluate past events, and our conduct in view of the knowledge and circumstances of BCCI that were then prevailing.

As Mr. Clifford has described, our law firm began representing BCCI in 1978. At that time I was a young lawyer in the firm. Our firm was actually quite selective in terms of the clients that we would agree to represent. And BCCI appeared to me to be an appropriate—even an attractive client for our firm.

In 1978, and thereafter through the 1980's, BCCI appeared to be a successful, growing, international bank. It was managed by professional, conservative bankers from Pakistan, after Pakistan nationalized the banking industry. It was a company that we understood to be owned by some of the wealthiest people in the world. These were respected businessmen, and leading political figures from the Middle East. It was a company that was regulated by the Luxembourg Monetary Institute, and by the Bank of England, in London, where BCCI had its world headquarters.

The Bank of America owned a 30-percent interest in BCCI, and participated in BCCI's management through representation on its board. And Bank of America was, of course, at that time the largest and—some would say—the most respected bank in the United States at that time.

We also understood that BCCI enjoyed important banking relationships with a number of major U.S. banks. These would include Security Pacific, First Chicago, American Express, Bank of New York, and, of course, Bank of America. And these highly reputable financial institutions in the United States also extended very large credit lines to BCCI.

And throughout this period, throughout the decade of the eighties, BCCI expanded its operations to more than 70 countries around the world. And in each instance, BCCI was able to obtain the licenses and approvals from the governmental authorities where it opened new banking operations. And to us, this signified BCCI's respectability, and its acceptance worldwide.

During the 1980's, BCCI also had known, close relationships with leading world figures, people of unquestioned integrity—such as former President Carter and Prime Minister Callahan.

BCCI is now portrayed in the media as an evil, corrupt organization. But I can say to you, our impression, throughout the period we were representing BCCI was distinctly different. And I think that our impression of BCCI was accurately described recently by a man named John Heimann, who was former controller of the currency. He was former New York State Superintendent of Banks. And he wrote in the Wall Street Journal recently. I quote: "When I look back at its origins, I am struck by how respectable BCCI appeared then. Among other things, Bank of America was a major shareholder; regulators in many nations—including Britain—opened their doors to what looked like a uniquely dynamic, welled-back, Third World bank."

We had an equally favorable impression of the Middle Eastern investors who we also represented in connection with the acquisition of First American. These investors appeared to be reputable people, of prestige and standing. Included in the group were the ruling family of Abu Dhabi, and persons and entities associated with them; there were also involved in this group rulers from two of the other emirates in the United Arab Emirates. There were leading businessmen from the Middle East, such as a Mr. Fulaij, who came from one of the leading families in Kuwait; former chairman of Kuwait Airways. Mr. Clifford mentioned Kamal Adham, he was a leading businessman from Saudi Arabia, and enjoyed a first-rate reputation. And we have attached to our prepared statement that has been submitted to the committee, some of the letters of reference that were submitted on behalf of these people, letters from some of the largest international companies and banks with which they dealt.

We, in short, were pleased to represent these people. Now, attention has been devoted to representations that Mr. Clifford and I made to bank regulators in connection with the acquisition of First American. The fact is—it's not much mentioned—but there were three, prominent law firms, all of us working closely together, all of us dealing directly with the clients. We all believed the information that we were presenting to regulators was accurate.

And here we had unusual confidence in the information being presented, because there were independent investigations of the proposed owners of First American by governmental authorities, investigations in which we did not participate.

And the extent of those investigation was wide-ranging, and, indeed, in light of the high-profile nature of this acquisition, it may well have been unprecedented. The Federal Reserve, in its testimony recently, has detailed the extent of those investigations. They were also the subject of hearings back in 1982. I will quote a couple of sentences from the hearing record. This was before Mr. Rosenthal's committee, testimony by Mr. Wallich, then member of the Federal Reserve Board.

"Question, Mr. Rosenthal: Mr. Wallich, can you tell us just a little bit how you checked to verify the backgrounds, the character, the integrity, the financial resources of the individuals? Mr. Wallich: The board worked very hard at this, because as my testimony

says, this is a crucial matter. We used all the resources of the U.S. Government—not only those of the Federal Reserve Board. And we developed information from a very broad informational source. We also, of course, obtained bank statements. We obtained financial statements of the individuals. And these were certified. So we did what I think is humanly possible to develop detailed information on these individuals.”

This investigation of the representations that had been made by these Middle East investors has also been described in a letter that was written by the banking superintendent of New York State, in a letter that was submitted to Mr. Rosenthal—again, I think a couple of sentences will give you the feel of it.

He writes, after detailing the extensive nature of the investigation that they conducted, he says: All the information we received indicated that the investors were prestigious and reputable people. None of the regulatory agencies involved found anything derogatory about any of the investors, nor did the former top management of Financial General, who fought the takeover for almost 3 years. And he says our investigation was thorough, and explored all available sources of information.

It does make—be ironic that we had available to us, in this transaction, much more information than a lawyer normally has in a commercial transaction. Here we had sworn testimony from the key individuals. We had extensive background information. We had certified financial statements, bank references, personal business references. And then we had these extensive investigations and cross-checks by the U.S. Government, and by the State regulatory authorities. And all of the information that was gathered supported the representations that were being made.

Let me conclude—we do not know what the truth is as to the allegations that have been leveled regarding certain of the First American shareholders serving as nominees for BCCI. The ownership issue is very confused. It's in dispute. Documents from BCCI which relate to this issue are suspect, according to Price Waterhouse—BCCI's auditors.

From our standpoint, we never had any reason to distinguish between shareholders, or to assume that some of the shareholders were legitimate, and other shareholders or nominees—all of them appeared to be of the same category.

Now I think the committee will understand that no corporate management can know what a shareholder does with his stock after it is purchased. However, during the initial regulatory proceedings, we made commitments to regulators that First American would be operated honestly and properly under the control of Mr. Clifford and the board of directors. And whatever the facts are that are developed, relating to the ultimate ownership of the stock of First American, I state to this committee without equivocation, that we kept that fundamental promise to regulators.

Thank you.

[The prepared statements of Mr. Altman and Mr. Clifford follow:]

PREPARED STATEMENTS OF CLARK M. CLIFFORD AND ROBERT A. ALTMAN

Chairman Kerry, Senator Brown, members of the committee: We are pleased to appear today before the Subcommittee on Terrorism, Narcotics, and International

Operations of the Senate Foreign Relations Committee and welcome the opportunity to discuss in this public forum the facts, circumstances, and allegations surrounding First American Bankshares and the Bank of Credit and Commerce International ("BCCI").

We submit this testimony as our joint statement. Our testimony necessarily concerns events going back many years and reflects our respective recollections of these matters.

We are, of course, aware of the widely reported allegations that BCCI has engaged in systematic fraudulent practices worldwide, and are familiar with the charge that BCCI may secretly have acquired a substantial stock interest in First American. We urge care in reviewing these complex allegations, and caution in reaching judgments about these events.

We note the natural tendency to view the events of yesterday in the light of charges or information available only today. We shall attempt to present the facts and circumstances as they were known to us at the time the events were occurring, so that a fair and objective review of the issues is possible.

We previously appeared on September 11, 1991, before the House Banking Committee. Subsequent to that appearance, representatives of the Federal Reserve have appeared before the House Banking Committee and presented the results of regulatory audits which answer certain fundamental questions that have been raised about First American and our management of that Company. We believe that testimony is significant and shall attempt to highlight salient portions of it today.

We also are generally aware of hearings involving the BCCI matter before this Subcommittee earlier this year. We welcome the opportunity to correct those parts of the record that we believe are in error. Through our testimony, we shall provide the Subcommittee the facts concerning our conduct and our legal representation of BCCI, so that no misinformation or error remains. We appreciate the chance to appear in this public hearing, and set the record straight.

We are comfortable in the knowledge that this Subcommittee and the American people can hear from us directly, and reach their own conclusions. We intend to be candid and direct. We submit that when we conclude our testimony, the following fundamental conclusions will be inescapable:

1. *Honest Operation.* First American—the banking organization we headed for over 9 years—was operated honestly and ethically. Whatever may have happened at BCCI—and those exact facts are far from clear—the record establishes, and comprehensive audits confirm, that at First American under our leadership there were:

- No financial improprieties
- No fraudulent lending practices
- No account manipulations
- No money laundering
- No improper payments to BCCI
- No transactions which benefited BCCI at the expense of First American
- No lavish executive perquisites
- No lack of regulatory supervision
- No U.S. taxpayer bailout
- No depositors that ever lost a cent

It has, after all, been the banking operations of First American for which we have been responsible all these years, and we welcome an examination of our record. This decade of honest, reputable banking at First American refutes any allegation that the activities of First American were controlled by an allegedly corrupt foreign institution.

2. *American Management and Control.* First American has been managed and controlled by prominent American Boards of Directors and experienced American bankers—in keeping with express commitments that were made to bank regulators. Together with final responsibility for the Company, the ultimate management authority at First American was reposed by the shareholders in Clark Clifford as Chairman. At no time did First American receive instructions or directives from BCCI regarding First American's business decisions. At no time did BCCI control First American's operations. The evidence is conclusive that the two companies had different—and incompatible—operating policies and procedures, strategic concepts, bank support functions, staffing and administrative programs, customer bases, and controls and systems. The two organizations did not share a common corporate philosophy or culture.

3. *Regulatory Audits.* The Federal Reserve's inquiry into the issues concerning BCCI and First American has involved intensive, wide-ranging audits of the entire First American organization. This inspection was conducted by the Federal Reserve, the FDIC, and state regulators in a coordinated effort. The findings of that inspec-

tion confirm the most fundamental assertions we have made during the current investigation—at First American there was no “involvement of, influence by, or improper payments to BCCI.”¹ These audits have established that *we* ran First American and we ran it *honestly*.

4. *Financial Record.* The administration of First American during our tenure was successful. Under our direction, a scattered group of local banks in various markets was transformed into a major, dynamic financial institution. The Company’s assets increased dramatically, from approximately \$2.2 billion to over \$11 billion. This growth was accompanied by similar increases in deposits that relied upon stable core deposits, not “purchased” money. During this same period, profits quadrupled. Last year, with the precipitous decline in real estate values and the resulting need to build loan reserves, First American for the first time reported an operating loss (as did many banks in the region). Despite that setback, First American remains a uniquely valuable franchise with an excellent future. It employs over 6,000 Americans and offers first rate banking services.

5. *Ownership.* At no time, prior to the recent disclosure of allegations, did we become aware of any secret ownership of First American stock by BCCI. Despite the review of reams of First American and BCCI documents by investigators, including BCCI’s so-called “secret” files, no evidence has been found that establishes that we knew BCCI illegally owned any First American stock, or that we knowingly misled regulators. To the contrary, there is a large volume of documents—correspondence, proxies, share transfer deeds, letters of waiver and acceptance, offering memoranda and Board minutes—which clearly show that we operated in the belief that First American was owned by Middle Eastern Investors.

6. *Bona Fide Shareholders.* The assertion that BCCI owns a large block of First American stock remains an allegation, not a factual determination. A number of the shareholders are not challenged as being nominees. Certain other shareholders, said to be nominees, have strongly denied the allegation. As of this time, the only conclusion that can be reached is that the true ownership of First American is unclear. (See Attachment A). It is, of course, impossible for the management of any corporation to know what secret arrangements a shareholder could have made with his stock. For our part, however, there was never any reason to distinguish one shareholder from another, or suspect that any of the shareholders were not bona fide investors.

7. *Shareholder Representations.* Whatever the truth is relating to BCCI’s secret ownership of First American stock—and that picture remains murky—we and other counsel made every reasonable effort to ensure that the representations made to bank regulators in 1980–81 in connection with the proposed acquisition of First American were accurate. Three prominent law firms worked actively together during the regulatory process, and everyone involved at each of these firms believed the information being presented was correct.

8. *Regulatory Proceedings.* Descriptions of the 1981 Federal Reserve proceedings, which have suggested that regulatory approvals were largely based on some general assurances given to the agency by Clark Clifford, are refuted by the factual record. The 1981 federal regulatory approvals were based on the merits of that application, as reflected in a voluminous administrative record. Moreover, as Federal Reserve officials have repeatedly testified there were extensive, *independent* investigations—inquiries in which we were not involved—where various federal agencies assisted the federal and state bank regulators.² Information thus was obtained from the State Department, the Commerce Department, the FBI, the CIA and the Middle East specialists of several leading New York banks—which confirmed information in the application and presented no proper basis for objecting to the proposed acquisition.

As Alan R. Cohen, Acting Superintendent of the State of New York Banking Department, wrote to the late Representative Benjamin Rosenthal, then Chairman of the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations: “From none of the foregoing sources of information did we ever receive any derogatory information about any of the investors. On the contrary, *all the information we received indicated that the investors*

¹ Written Testimony of Robert P. Black, President, Federal Reserve Bank of Richmond, Before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (Sept. 13, 1991), at 5.

² See, e.g., Hearings on the Role of the Federal Reserve in Regulating BCCI Before the Banking, Finance and Urban Affairs Committee, U.S. House of Representatives (Sept. 13, 1991) (hereinafter “Sept. 13, 1991 House Banking Hearing”) (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Legislate Transcript pp. 67–68, 96).

were prestigious and reputable people." (Letter from Alan R. Cohen to Rep. Benjamin Rosenthal, dated October 12, 1982, appended hereto as Attachment B) (emphasis added). This view was echoed by Henry C. Wallich, then a Member of the Federal Reserve Board of Governors, during his September 1982 testimony before Chairman Rosenthal's Subcommittee, in which he described the investigation conducted by the Federal Reserve to verify the character, integrity, and financial resources of the investors. A copy of Mr. Wallich's testimony is appended hereto as Attachment C. In short, after prolonged and exacting scrutiny, the regulators reached the same conclusion that we did—that the investors were reputable, wealthy individuals who were buying the stock as personal investments.

9. *Legal Representation.* During those periods in which we represented BCCI, we provided services and advice which BCCI was entitled to receive. At no time did our law firm take any improper action to obstruct or impede any lawful investigation of BCCI.

* * * * *

We believe these points are compelling. With this brief introduction, we shall now present the history of our involvement with First American and then address certain of the basic issues that have been raised.

BACKGROUND

Our initial involvement with BCCI dates back to late 1977, when we were introduced to Mr. Agha Hasan Abedi, the president and founder of BCCI. Mr. T. Bertram Lance, former Director of the Office of Management and Budget, had been asked by Mr. Abedi to serve as a consultant on investment opportunities in the United States. During subsequent meetings with Mr. Abedi in early 1978, we learned that BCCI served as the banker and investment advisor to a number of wealthy Middle Eastern rulers and businessmen. Without our involvement or advice, four of these investors had purchased stock in an American bank holding company called Financial General Bankshares ("FGB"), the predecessor to First American, without filing certain disclosures with the Securities and Exchange Commission ("SEC"). The SEC investigated these transactions, and the management of FGB, concerned that these purchases foreshadowed a possible corporate takeover effort, filed suit against the Arab investors, BCCI, Mr. Abedi and others. We were retained to represent Bert Lance, Agha Hasan Abedi, BCCI, Sheikh Mohammed bin Zaid al Nahyan, Sheikh Sultan bin Zaid al Nahyan, Faisal al Fulajj, and Abdullah Darwaish, certain of these defendants. The highly regarded New York law firm of Wachtell, Lipton, Rosen & Katz also was retained, at our suggestion, and served as co-counsel throughout these proceedings for the next 4 years.

It must be remembered that the credentials of BCCI and its founder, Mr. Abedi, at that time, were favorable, and even impressive. When we first came to know Mr. Abedi, information available to us suggested that BCCI was a legitimate financial institution which was associated with people and entities of high standing and repute. Based on our initial meetings, we personally found Mr. Abedi to be dignified, modest, intelligent and credible.

BCCI, the institution Mr. Abedi founded in 1972, likewise enjoyed respectability. It was notable that Bank of America was a partner in BCCI, owning 30 percent of its shares.³ The other investors in BCCI included "some of the most respected names in the Middle East and representatives of most of the ruling families."⁴ BCCI's annual audited financial statements indicated that BCCI's banking operations were sound and proper.

BCCI maintained correspondent banking relationships and lines of credit with a number of major domestic and foreign banks, including Security Pacific, American Express, Bank of New York, National Westminster Bank and Bank of America. Throughout the 1980's, it is reported that Bank of America handled over \$1 billion daily in clearings for BCCI.⁵ BCCI also developed relationships with leading investment banking firms. For example, in 1983 BCCI issued \$50 million in floating rate notes that were underwritten by such major investment brokerage houses and banks as Merrill Lynch, First Chicago Limited, Prudential-Bache Securities,

³ When Bank of America sold its BCCI shares, it issued a press release to deny reports that its divestiture related to concerns about BCCI or its management practices. Bank of America Press Release, Sept. 1, 1978.

⁴ *BCCI's Rise Based on Unique Management Style*, Washington Star, Oct. 22, 1978, at A-15.

⁵ See *Gilt by Association*, Time (Oct. 7, 1991).

Lehman Brothers, and Kidder Peabody.⁶ These facts demonstrated credibility and stability in the financial world.

Many regulatory authorities granted approval to BCCI to conduct operations within their jurisdictions during the 1980's.⁷ Thus, BCCI purchased banks and opened banking operations all over the world, including its licensed banking agencies in the United States in New York, Florida, and California. By way of illustration, Mr. Gerald Lewis, the Comptroller of Florida, wrote to Mr. Abedi in late 1985, urging BCCI to establish its U.S. banking operations in his state because Florida was the "most commercially attractive and viable state to locate and expand [his] bank's U.S. activities." A copy of this letter is appended hereto as Attachment D. Many public and private entities, including the United Nations, UNICEF, and the central banks of Peru, Nigeria, Zimbabwe, Bangladesh, and Kenya, kept substantial funds on deposit with BCCI.⁸ While we have no personal knowledge, we understand from recent reports that our own Central Intelligence Agency had substantial relationships with BCCI.

As former Comptroller of the Currency and New York State Superintendent of Banks, John Heimann, wrote in a recent article in the *Wall Street Journal*: "When I look back at its origins, I am struck by how respectable BCCI appeared then. Among other things, Bank of America was a major shareholder. Regulators in many nations, including Britain, opened their doors to what looked like a uniquely dynamic, well-backed Third World bank."⁹

The FGB Litigation

As noted above, our law firm was retained in February 1978 to represent Lance, the Arab investors identified above, BCCI and Mr. Abedi in legal proceedings that arose in connection with the purchase of approximately 18 percent of the stock of FGB. In an effort to resolve the SEC case and protect the financial interests of the investors, a tender offer to acquire control of FGB was recommended by New York counsel. The documents settling the SEC proceeding expressly provided for a tender offer by the investors and/or ICIC, a corporate shareholder of BCCI.

When we agreed to assist in pursuing this acquisition, we understood that there was no legal prohibition against foreign ownership of an American banking institution. Indeed, a view was expressed by thoughtful U.S. policy-makers that the purchase of crude oil by the United States had resulted in the transfer of billions of dollars annually to the Middle East, and that it would benefit the American economy to have some of that money returned to the United States in the form of capital investments.

The SEC proceedings were resolved in March 1978, but the litigation with FGB management, which sought to prevent the acquisition, continued until the summer of 1980—making this one of the longest corporate takeover struggles in history. The extensive litigation with FGB was intense, and exhaustive discovery was conducted of the investors, BCCI and others. Sheikh Adham, Messrs. Fulajj and Darwaish, as well as Mr. Abedi and other BCCI officers, testified under oath in depositions. In all this extensive testimony, there was no evidence that established the investors were acting for BCCI.

The takeover contest contributed substantially to our understanding and belief that the investors were seeking to acquire FGB shares in their own right. During the ensuing depositions, the investors, Mr. Abedi, and other BCCI officials testified under oath in the presence of counsel. None of us had any reason to question the veracity of their sworn statements. In particular, their sworn testimony established that: (i) the investors were purchasing FGB shares for their own interest, because they valued the stability of investments in the United States; (ii) BCCI did not control, vote, or have the power to dispose of the shares purchased by the investors; (iii) BCCI would not finance the purchase of shares in the tender offer; (iv) BCCI's role with respect to the investors' purchase of FGB shares was that of commercial banker and investment advisor; and (v) the investors intended their investment to be managed by American professionals.

⁶ Prospectus, U.S. \$50,000,000 Guaranteed Floating Rate Notes due 1990, unconditionally and irrevocably guaranteed as to payment of principal and interest by BCCI Holdings (Luxembourg) S.A. (Nov. 22, 1983).

⁷ We were aware that there was regulatory concern about BCCI's corporate structure; BCCI lacked a single consolidated regulatory authority which would serve as its lender of last resort. These concerns, however, did not relate to questions about fraudulent practices or illegalities at BCCI.

⁸ See *BCCI: The Inside Story*, The Independent, July 14, 1991, at 2.

⁹ *Don't Overregulate After BCCI*, Wall Street Journal, Sept. 12, 1991, at A-18.

Nothing in the course of this litigation—neither the investors' actions nor their words—indicated in any way that they were nominees for BCCI, as is now alleged. During the course of the takeover litigation, they travelled to the United States to testify under oath and defend their investment. They were also willing to make extensive personal disclosures to regulatory authorities.

In July 1980 an agreement was signed with the management of FGB settling the litigation and providing for the acquisition of FGB by the Middle Eastern investors, subject to regulatory approvals.

REGULATORY PROCEEDINGS

Before the tender offer for First American could be consummated, various federal and state bank regulatory authorities had to approve the transaction. A lengthy written application was filed with the Federal Reserve Board setting forth all relevant facts relating to the transaction. This application was prepared collectively by lawyers at Wachtell, Lipton, Rosen & Katz; Clifford & Warnke; and Kutak, Rock & Huie. Each of these law firms had direct contact with BCCI and the Arab investors regarding the representations being made.

Further, the regulatory approval process followed heated, high profile litigation and took place in an atmosphere of bitter opposition, particularly in New York City, where one of FGB's principal banks was located. The investors' applications for regulatory approval of the tender offer therefore received intense scrutiny.

The Federal Reserve Board took the unusual step of convening an on-the-record hearing in April 1981, at which federal and state regulators had an opportunity to question some of the investors, who made themselves available for this purpose.¹⁰ At that hearing, four of the investors appeared and affirmed that they—not BCCI—owned and controlled their FGB shares. The investors also made clear that they intended to participate in the tender offer for their own accounts, and that they intended to leave the management of the Company to an American Board of Directors. Assurances were also given by the investors during the regulatory approval process that BCCI had not and would not finance the acquisition of FGB shares in the upcoming tender offer, or otherwise participate as an investor in the tender offer.

The *bona fides* of the investors throughout this process seemed evident to us. The initial group of investors had been expanded to 14 persons and entities of stature in the Middle East. Their number included members of the ruling families of the United Arab Emirates and their wholly-owned investment companies. One of the investors, the Abu Dhabi Investment Authority, was a wholly-owned governmental entity, responsible for investing the assets of the Emirate of Abu Dhabi. Charged with investing the resources of one of the richest countries in the world, it hardly could have appeared more substantial, and the logic of its interest in investing in a U.S. financial institution which promised long-term growth and stability seemed plain.

Sheikh Kamal Adham, the "informal chairman" or leader of the shareholder group—and reportedly a close associate of Anwar Sadat of Egypt—similarly was considered a leading citizen of Saudi Arabia. During those proceedings, we received references from major corporations which attested to Sheikh Adham's character, integrity, and financial resources. Similar references were provided for other investors. As examples, several such letters of reference are appended hereto as Attachment E.

One personal observation about these people also seems relevant. Along with Sheikh Adham, Sheikh Zaied bin Sultan al Nahyan, the ruler of Abu Dhabi, had helped Mr. Abedi start BCCI. These gentlemen were among Mr. Abedi's most important clients. In our experience, Mr. Abedi was always exceedingly deferential in the presence of any of the investors. It seemed plain to us that Mr. Abedi was an agent of the investors, not their principal.

Martin Lipton of the law firm of Wachtell, Lipton, Rosen & Katz had a similar reaction: "Mr. Adham talked to Mr. Abedi in a manner which clearly indicated to me that Mr. Abedi was Mr. Adham's agent, not his principal; Mr. Abedi, for his part, was entirely deferential to Mr. Adham."¹¹ No one questioned that Mr. Abedi

¹⁰ See Transcript of Meeting before the Board of Governors of the Federal Reserve System, regarding applications of Credit and Commerce American Holdings and Credit and Commerce American Investment, to acquire Financial General Bankshares, Inc. (April 23, 1981) (hereinafter "April 23, 1981 Federal Reserve Transcript").

¹¹ Affidavit of Martin Lipton (Aug. 9, 1991) (hereinafter "Lipton Affidavit"), ¶ 10.

served the investors, not the reverse. Again in Mr. Lipton's words, "no person who observed the interaction between them would have believed that Mr. Adham was a 'front' or 'nominee' for Mr. Abedi or BCCI." ¹²

The investors provided certified financial statements and other information, which documented their ability to purchase the Company. The regulators did not rely solely upon these materials, but rather made independent inquiries into the investors' financial resources and integrity that certainly were far-reaching in scope. In his 1982 testimony before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, Henry C. Wallich of the Federal Reserve described the scope of the Board's investigation:

The Board worked very hard at this because * * * this is a crucial matter. We used all the resources of the U.S. Government, not only those of the Federal Reserve Board, and we developed information from a very broad informational source.

We also, of course, obtained bank statements. We obtained the financial statements of the individuals, and these were certified by local accountants who in turn were certified by familiar named accountants of the Big Eight.

* * * * *

* * * [W]e used all sources that were at our disposal. I think a very unusual effort was put into this because of the importance of getting a clear picture. After putting it all together and getting the cross-checks, we arrived at the conclusion that these [investors] were satisfactory.

(Attachment C, p. 56-57). William Taylor, Staff Director, Division of Banking Supervision and Regulation, and Virgil Mattingly, General Counsel of the Federal Reserve, have repeatedly reaffirmed the extent of the Board's own investigatory efforts during testimony before both this Subcommittee and the House Banking Committee. ¹³

The magnitude of this regulatory review also is well described in a letter written by Alan R. Cohen, Acting Superintendent of the State of New York Banking Department, to the late Congressman Benjamin Rosenthal, dated October 12, 1982, appended hereto as Attachment B. As Mr. Cohen wrote, the regulatory applications by Credit and Commerce American Holdings ("CCAH") and Credit and Commerce American Investment ("CCAI"), First American's parent companies, "received more scrutiny from more regulatory agencies than any other in recent memory." He went on to say that

[o]ver a period of 4 years, the application was scrutinized by the Federal Reserve Board, the Comptroller of the Currency, the Securities and Exchange Commission, and the banking authorities of the states of Maryland, Virginia and Tennessee as well as New York.

¹² *Id.*

¹³ In their written testimony to the House Banking Committee, submitted in connection with their Sept. 13, 1991 appearance, Mr. Mattingly, William Taylor and E. Gerald Corrigan of the Federal Reserve stated:

The Board did not rely solely on these representations that the investors were acting for themselves. The Board requested detailed information from the investors regarding their financial resources and affiliations, including financial statements prepared by accounting firms, some of which were affiliated with the largest accounting firms in the world. Financial statements were submitted, and, in the case of the largest shareholders, a statement about the source of funds to be used to make the acquisition was required. The Board also obtained letters from the largest investor's banks confirming balances and containing references. All these materials indicated that the investors were persons of considerable means and that the purchases were to be made from their own personal resources.

To further verify that the representations being made were accurate, the Board conducted background checks on the shareholders, soliciting information from the Central Intelligence Agency, the Departments of State and Commerce, and a foreign bank supervisor. The Board also obtained information from the SEC regarding the original acquisition and two CCAH shareholders.

None of the agencies performing background checks—the CIA and State and Commerce Departments—reported any adverse information on the investors, and the Departments of State and Commerce reported that the investors were persons of substance. Neither the Board nor any other regulator received any evidence from other sources that the representations made to them were false.

Written Testimony of J. Virgil Mattingly, Jr., General Counsel, and William Taylor, Staff Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, and E. Gerald Corrigan, President, Reserve Bank of New York, before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (Sept. 13, 1991) at 23-24.

Mr. Cohen advised Congressman Rosenthal that the "vast investigative resources of the federal government" were brought to bear upon the investors and their application. According to Mr. Cohen, information about the investors was obtained, *inter alia*, from the State Department and the Department of Commerce.

Finally, the regulators "utilized the resources of multinational banks in New York City, in particular Morgan Guaranty Trust Company, Manufacturers Hanover Trust Company, Irving Trust Company and Citibank," as additional sources of information. As Mr. Cohen stated:

Middle East specialists at these banks knew the major investors, were able to confirm the accuracy of much of the information * * * [the regulators] ha[d] received, and were able to supply * * * additional information as well.

As the New York Banking Department informed Congress, "[f]rom none of the foregoing sources of information did we ever receive any derogatory information about any of the investors."

In short, the regulatory proceedings were thorough and extensive. Any suggestion that regulators approved this transaction on the basis of general assurances from counsel is completely refuted by the record.

We believed, as did our co-counsel from other firms and the many regulators who carefully had scrutinized the matter, that the investors were substantial persons who desired a passive investment in a valuable American banking franchise—not BCCI nominees. As co-counsel Mr. Lipton has stated:

During the course of Wachtell Lipton's service as counsel, I saw no evidence suggesting that BCCI or Mr. Abedi was a principal in the transactions, much less that Mr. Adham or the other Investors were "nominees" or "fronts" for BCCI or Mr. Abedi. To the contrary, it appeared that BCCI and Mr. Abedi were the advisors they held themselves out to be. By the same token, in all my dealings with Messrs. Clifford and Altman, I saw nothing which led me to believe that either of them knew or suspected, or had any reason to know or suspect, that BCCI or Mr. Abedi was a principal.¹⁴

For nearly 9 years following the takeover, nothing occurred to disabuse us of our basic belief about the Middle Eastern owners of this Company.

MANAGEMENT AND CONTROL OF FIRST AMERICAN

After the acquisition was approved by the Federal Reserve and the relevant state authorities, the tender offer for FGB—which later was renamed First American—was consummated in April 1982.

Mr. Clifford had been asked by the shareholders to consider serving as Chairman of the Company following the acquisition. At the time of the acquisition, Mr. Clifford was 75 years old, and had had a long and successful career in government and the private practice of law. The invitation to become Chairman was appealing. The investors, who had remained steadfast through the years of difficult litigation, clearly required assistance as passive investors in the Company. Equally important, however, was the challenge posed to try to realize the potential of this banking company.

Before accepting the offer, however, a fundamental agreement was made with the shareholders on the issue of authority. The express understanding was reached that Mr. Clifford would have *complete* authority for the management and direction of the Company and *complete* responsibility as Chairman for its operations. This agreement never was violated.

Against this background, Clark Clifford joined the Boards of CCAH, CCAI, and First American Corporation in 1981, and became Chairman of the Board of First American Bankshares in April 1982. Former Senator Stuart Symington was elected Vice Chairman of First American Bankshares, a Managing Director of its parent holding companies, and a director of the subsidiary New York bank. Robert Altman became President of First American Corporation and a director of various First American holding companies and subsidiary banks. A group of distinguished Americans—including, for example, James Gavin, a retired General of the U.S. Army, who had served as U.S. Ambassador to France and Chairman of Arthur D. Little; and Elwood Quesada, a retired Air Force General who had served as Administrator of the Federal Aviation Administration and Special Assistant to President Eisenhower—were invited to and became members of the Board.

A professional banking staff was employed to conduct the day-to-day banking business of the Company. We, together with the Board of Directors, thereafter established the broad policies, strategic directions, financial objectives, and operating phi-

¹⁴ Lipton Affidavit, ¶ 4.

losophy of First American. The law firm of Clifford & Warnke was retained, at the express request of the shareholders, to serve as general counsel to First American.

The investors committed themselves to having 60 percent of their shares voted by Senator Symington for the first 5 years. This dramatized the transfer of control from the shareholders to the American directors. Thereafter, the shareholders signed proxies for annual meetings which generally affirmed the recommendations of the American Board of Directors.

During the 9 year period when we headed First American, the Company prospered and grew. It was transformed from a small, lackluster group of banks into the largest banking organization in Washington, DC. A retail banking franchise was created that remains unique—and quite valuable. In August of this year, we resigned our positions with First American Bankshares and its related entities.

Management's Dealings With BCCI

Considerable attention has been given to our contacts with BCCI in the years following the acquisition of First American. It is only today's hypersensitivity to BCCI that makes these contacts appear controversial. Over the past decade, we met with officials of BCCI several times a year in London. We also had meetings in the United States. These meetings were not unusual, nor were they in contravention of understandings we had with bank regulators.

During the regulatory proceedings, the regulators repeatedly were told, orally and in writing, that BCCI had existing banking and other relationships with the shareholders and had provided, and would continue to provide, certain services to the CCAH investors in connection with their CCAH investments. Specifically, the regulators were advised that certain of the First American investors were also shareholders in BCCI; that the investors used BCCI as their commercial and investment bank; that BCCI had provided and would continue to provide "advisory and other services" to the shareholders with respect to their CCAH investments; and that BCCI served as a communications link with the investors (given the logistical problems in communicating with these foreign shareholders).¹⁵ It therefore was understood by the regulators that there were substantial ties between BCCI and these investors. Indeed, the regulators expressly were informed that BCCI "would continue to look after and provide advice to the Investors with respect to their investments," including their investment in First American.¹⁶ This was consistent with the roles played by BCCI during the years of the takeover litigation.

Following the acquisition, we continued to interact with BCCI and the investors as we had done previously. Sheikh Adham, as the leader of the shareholders, and Mr. Abedi, as an advisor to the shareholders, continued to meet with us on a regular basis over the years to hear reports on the shareholders' investment in First American. We did not resist or seek to avoid these contacts with BCCI. We understood that the First American shareholders were important clients and customers of BCCI and that, as the investment advisor to these shareholders, BCCI wanted the shareholders' investment in First American to be successful.

The various activities known to us that BCCI undertook for the shareholders after the acquisition were consistent with representations to bank regulators and seemed entirely unexceptional. In connection with annual meetings, proxies were sent to the shareholders through BCCI and were *signed by the shareholders* and returned through BCCI. A sample of these signed proxies is appended hereto as Attachment F. Letters of acceptance or waiver for share subscriptions in connection with our efforts to raise capital from time to time were sent to the shareholders through BCCI, and were received back *signed by the shareholders*, occasionally retyped on the shareholders' letterhead.

In connection with the Company's efforts to raise additional capital through rights offerings, we increasingly were asked by the shareholders to provide offering memoranda which would explain the need for additional capital. In this regard, we were informed by BCCI that the shareholders demanded more formal communication from management before they would commit substantial additional monies to First American's operations. Such demands for information, of course, were entirely consistent with our understanding that the shareholders had each made a personal investment in the Company. In response to these requests, in 1986 we prepared and distributed to the shareholders a lengthy profile of CCAH, which described the

¹⁵ See generally April 23, 1981 Federal Reserve Transcript; Application to the Board of Governors of the Federal Reserve System for prior approval of action to become a bank holding company (Oct. 3, 1980).

¹⁶ Letter from Robert A. Altman to Lloyd M. Bostian, Jr., Vice President, Federal Reserve Bank of Richmond (Nov. 24, 1978) (copy to William W. Wiles, Federal Reserve Board).

unique opportunity for investment presented by purchasing shares in First American's parent company. Offering memoranda were prepared and distributed to each shareholder in connection with the rights offerings held in 1987 and 1989. (See, e.g., Attachment G). These memoranda were intended to permit a shareholder to be informed fully about the investment decisions being presented.

As a result of these and other communications, it was our understanding that the shareholders of record were the owners of the Company. We believed that BCCI was in touch with the shareholders, and was keeping them informed about the status of their investments, as had been contemplated. BCCI, in its communications with us and others, certainly conveyed the impression that it was acting as a link with very real shareholders, consistently referring to "the investors," "the shareholders," and their views. (See, for example, Attachment H).

BCCI performed the same communications function with respect to all the shareholders, including Sheikh Zaid and others, against whom no allegation of nominee status has been lodged. We certainly had no suspicion that BCCI might have been treating certain shareholders differently from others. We ask, how were we or the Federal Reserve to distinguish a real shareholder from a nominee shareholder under these circumstances?

Of course, nothing in the books, records, or operating history of First American indicated that BCCI controlled any of the stock of the Company. No stock was ever issued to BCCI by CCAH or registered in its name or for its beneficial interest. No notice of foreclosure on Company stock has ever been received from BCCI. During the nearly 10 years of alleged foreign ownership of First American, BCCI never attended any Annual Meeting of shareholders or voted on any corporate matter, including the election of directors. Those votes were cast by the registered shareholders. BCCI never attempted to exercise any rights of an owner or control at any time.

In sum, all indications were that the investors were real and that they received information relating to CCAH through BCCI in its capacity as investment advisor and communications link—roles which had been disclosed to the Federal Reserve from the outset. After the acquisition of First American, as before, the conduct of the investors and of BCCI was consistent with our understanding that the investors had acquired First American independently of BCCI¹⁷ and were the real owners of their shares.

Absence of BCCI Control

We wish it to be plain on the public record that—whatever the facts are relating to secret control by BCCI over any First American stock—BCCI did not control the management decisions or actual operations of First American.¹⁸

As the recent Price Waterhouse report to the Bank of England states:

[BCCI's] former management have represented to us that the arrangements [between BCCI and First American] were in the form of a "merchant banking" transaction, in that it always acted as a "sleeping partner," *at no time using any voting rights or exercising any controlling influence over the management of First American.*¹⁹

This point has been reaffirmed by the Federal Reserve in numerous audits of the Company. Robert P. Black, President of the Federal Reserve Bank of Richmond, stated in his recent written testimony to the House Banking Committee:

¹⁷ As late as April 1990, BCCI's internal auditors reported to senior BCCI management that their review of BCCI's files and papers, and interviews, had revealed that

In 1982, when CCAH acquired First American Bank shares via two intermediate bank holding companies set up for this purpose (CCAI and FAC), *the acquisition was wholly funded by the shareholders of CCAH from their own resources plus a U.S. \$50 million syndicated bank term loan which was obtained by (FAC) First American Corporation.*

Hearing on Narcotics and Foreign Policy Implications of the BCCI Affair Before the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations, U.S. Senate (Aug. 8, 1991), Exh. 6, p. 13, ¶ 1.00 (emphasis added and omitted).

¹⁸ As Virgil Mattingly, the General Counsel of the Federal Reserve, recently testified before the Senate Subcommittee on Terrorism, Narcotics and International Operations, there is a legal distinction between control over bank stock and control over the day-to-day management of a bank. See Hearing on Narcotics and Foreign Policy Implications of the BCCI Affair Before the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations, U.S. Senate (Aug. 1, 1991) (afternoon session) (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 46). Even if, as has been alleged, BCCI acquired a secret ownership interest in the stock of First American's parent company, that stock ownership cannot be equated with actual control over First American's management and operations.

¹⁹ Price Waterhouse Audit Report on BCCI under Section 41 of the Banking Act 1987, submitted to the Bank of England (June 22, 1991) at p. 25, ¶ 6.4 (emphasis added).

[T]he Reserve Bank's inspections found compliance with the conditions and commitments of the original application and no violations of the law. The examiners * * * were well aware of the * * * concerns about the investors and the possible involvement of BCCI * * *. The examination and inspection record between 1982 and late 1988 is clear. Neither the reports of our First American inspections nor any of the reports of examination prepared by other * * * regulators contained comments or criticisms regarding involvement of, influence by, or improper payments to BCCI.²⁰

Moreover, when this current controversy arose in 1991, and the Federal Reserve initiated its investigation of BCCI, a comprehensive, coordinated and simultaneous examination of First American and its subsidiary banks was undertaken. In this regard, the Federal Reserve recently explained that "a total of 52 examiners from all 12 Federal Reserve Districts with an average experience level of approximately 8 years have expended in excess of 7 man years on this examination."²¹ During this intensive audit, the Federal Reserve "found no evidence of influence and control or any indications that the [First American] banks were involved in any attempt on the part of covert owners to influence others."²² At no time during the past 9 years did BCCI control the management decisions of First American.

New York Operations

Some have focused on First American's efforts to establish a bank in New York City and have questioned BCCI's role in the hiring almost 10 years ago of certain officers of the original management group of that bank. The fact is that BCCI has not in any way controlled First American Bank of New York ("FABNY"), much less the First American organization. These events now being questioned cannot be viewed in isolation, and are related to unique circumstances in New York during the 1982-83 time period. It is noteworthy that during the last 9 years new CEOs have been selected at each of the First American banks. These selections were not made or controlled by BCCI. Similarly, many senior officers in the First American organization, including officers vested with broad management responsibilities, have been hired over the past 9 years. Again, BCCI did not make or control these hiring decisions of First American. Indeed, BCCI had a prior employment relationship with only four of the more than 6,000 individuals employed by First American over the last decade.

In connection with the 1981-82 regulatory proceedings to acquire two New York banks owned by FGB, an application was submitted to the New York State Banking Board. Due to strong opposition, the investors agreed to divest the New York City bank following the tender offer. The Middle Eastern investors, in effect, were forced to create a new bank in New York City—an unforeseen development.

As a result, an entire management group to operate the New York bank had to be identified and hired. Mr. Abedi, as investment advisor to the shareholders, was consulted about bankers whom he might know or recommend for employment by the new First American Bank of New York. This assistance was particularly welcome as FABNY was to have an international banking capability, and Mr. Abedi's background was devoted to international banking. At no time, however, did Mr. Abedi make decisions concerning the selection, hiring, or dismissal of officers. Final authority—as made clear by Board minutes—rested with Mr. Clifford and the FABNY Board.

The first CEO of FABNY—a candidate recommended to Mr. Clifford by Mr. Abedi—was a senior officer with Bank of America. He appeared well qualified for the position, and after due consideration was appointed as CEO of FABNY by its Board of Directors. As a result of operating differences that arose subsequently between this individual and Mr. Clifford and the FABNY Board, he was replaced after only 2 years. Another banker, William Duncan, who had been with Chemical Bank for many years, was identified by an executive search firm and was hired by the FABNY Board. The lack of BCCI control over FABNY is made clear by Mr. Duncan, who has been the CEO of FABNY for approximately the past 6 years:

Since I joined FABNY, I have not seen any indication that BCCI, or any of its officers or directors, has executed any form of control over the management, op-

²⁰ Written Testimony of Robert P. Black, President, Federal Reserve Bank of Richmond, Before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (Sept. 13, 1991) at 5.

²¹ *Id.* at 7.

²² Sept. 13, 1991 House Banking Hearing (Statement of Robert P. Black, President, Federal Reserve Bank of Richmond) (Legislate Transcript p. 28).

erations or policies of FABNY. I have never been given a directive by any BCCI official or sought their advice on any issue.

Since becoming CEO, I have exercised broad authority in running FABNY. In consultation with FABNY's Board of Directors, I have been the person who has made the key decisions with respect to the management, operations and policies of FABNY.²³

The National Bank of Georgia

In connection with allegations of BCCI control, other questions have been raised about First American's acquisition of the National Bank of Georgia ("NBG") in 1987. An objective review of the transaction not only reveals that BCCI did not control First American's actions, but indeed demonstrates the complete independence of First American's management from BCCI.

The acquisition of NBG was a reflection of First American's consistent corporate strategy of expansion since 1982. In 1985-86, with the arrival of regional banking through interstate compacts, First American, a Virginia corporation, looked to expand outside its primary market areas into the southeast region. As we were considering expansion possibilities, we learned that the owner of NBG, Ghaith Pharaon, was in financial difficulty and might be willing to sell the bank.

NBG, one of the last major independent banks in Atlanta, was a particularly attractive acquisition prospect. In a conversation with Mr. Abedi, whom we knew to be an associate of Mr. Pharaon, we expressed First American's interest in purchasing the bank if it were to be sold. When we received word of Mr. Pharaon's willingness to sell the bank, the deal was actively pursued by First American with the assistance of outside regulatory counsel. In December 1986, based solely on its judgment of First American's best interests, the CCAH Board approved the proposed acquisition of NBG. BCCI did not influence these deliberations, nor did it control the Company's decision to acquire NBG. First American, not BCCI, initiated the NBG acquisition.

The price paid by First American was reasonable and determined free of control by BCCI. First American's financial staff had determined privately that a price in the range of that ultimately paid by First American—a net of approximately \$210 million, or 2.25 times book value—was reasonable. (Such multiples of book were not uncommon for bank acquisitions during that period.) Furthermore, the North Carolina National Bank ("NCNB") also was aggressively pursuing the acquisition of NBG at the same time. NCNB submitted a bid (consisting of NCNB stock) valued at approximately \$210 million. Mr. Pharaon, who reportedly considered the NCNB offer carefully, decided ultimately to sell NBG to First American, as we were making a competitive bid for cash.

It is also noteworthy that the funds used by the Company for the purchase of NBG came largely from our shareholders, not First American's capital. The net result of the transaction is that, while First American paid cash in the transaction, it acquired NBG—a valuable asset—without having to draw significantly upon its own existing financial resources for the purchase. The purchase was in the best interests of First American.

We are, of course, aware of allegations concerning BCCI's relationship with Mr. Pharaon and his alleged nominee arrangements relating to NBG. We do not know what those facts are, but we submit that—whatever the truth of those charges—the actions of First American after acquiring NBG are completely at odds with the theory that BCCI controlled First American.

Our analysis of NBG revealed that it had adopted or practiced many of BCCI's banking concepts when it was owned by Mr. Pharaon. After the NBG acquisition was consummated, First American implemented fundamental changes in the bank's management and operations. Senior officers at NBG who had been close to BCCI and Mr. Pharaon were replaced. A new Chief Executive Officer was appointed to run the Georgia operation. NBG's strategic banking focus was shifted from international banking to the traditional retail banking concepts characteristic of First American. First American dispensed with the NBG logo that strongly resembled the unique BCCI logo, and eliminated various operating elements—such as an open seating plan for officers—reminiscent of BCCI. First American also ceased the distribution of BCCI literature at the bank, which had occurred during Mr. Pharaon's ownership. These and other changes implemented by First American are at odds with claims that BCCI controlled First American's operations.

²³ Affidavit of William Duncan (Aug. 9, 1991), ¶¶ 10, 11.

No Financial Improprieties

There is no basis for any suggestion that First American may have been used by BCCI for money laundering. While no large financial institution can give absolute assurances that its facilities are not misused by others, both internal and external audits have confirmed that BCCI did not launder money at First American. In the spring of 1990, the First American internal audit group performed a 6 month analysis of BCCI's dealings with the Company. That audit found no instances of money laundering, nor did it find any First American account relationships with Manuel Noriega. Additionally, when the allegations surfaced about BCCI and First American early this year, intensive audits of the First American banks were conducted by federal and state regulators; to our knowledge no money laundering violations were uncovered.

We note that the Justice Department listing of 173 U.S. banks having accounts of the Medellin cartel in 1990 did not include First American. We also think it pertinent to note that the FDIC recently completed an intensive compliance audit and concluded that First American's money laundering control procedures were "state of the art" and a "model" for other commercial banks to emulate. We are gratified by these conclusions.

It is appropriate to observe that in recent testimony before the Subcommittee on Consumer and Regulatory Affairs of the Senate Committee on Banking, Housing and Urban Affairs, Virgil Mattingly, General Counsel of the Federal Reserve, noted that "[b]oth federal and state examinations indicated no irregularities in any dealings between BCCI and First American. * * * ²⁴

A Record of Independence at First American

A review of First American's operating history plainly demonstrates that BCCI did not operate or control First American. Senior staff of the Federal Reserve commented on this subject in an earlier appearance before the Congress, when it was noted that "[Virginia Commissioner of Financial Institutions Sidney] Bailey has recently reported that the state [of Virginia] has no criticism whatsoever of the management of [First American Bank of Virginia], and no evidence of attempts by Middle Eastern investors to influence, in any way, the policy of that bank." ²⁵ As a Board representative also noted during that same congressional hearing:

[O]ur first reaction * * * was * * * to look carefully at the U.S. entities here and see what kind of [BCCI] involvement there was and was any of it detrimental to the banks here. And over the years we have not had one single report of such an instance. ²⁶

Certain of the current directors of First American Bankshares recently testified before the House Banking Committee and stated flatly that First American's banks "are not in any way controlled by BCCI." ²⁷ We believe that the CEOs and members of the boards of the First American subsidiary banks also would make clear that BCCI had no role in establishing the strategic focus of First American banks, no role in creating or developing their investment or lending policies, and no participation in credit decisions. BCCI did not control First American's decision to acquire the minority stock of subsidiary banks, nor was it involved in other major transactions and expenditures by First American, such as the sale or merger of bank subsidiaries. BCCI had no influence in the creation and development of new FAB subsidiaries—such as Metro Corp., which was established to manage the majority of First American's assets—nor did it play any role in the development and consolidation of FAB's human resources policies. These and myriad other activities are a valuable measure of the First American banks' activities, and hence of the independent operations of First American.

²⁴ Hearing on the Bank of Credit and Commerce International and S. 1019 Before the Subcommittee on Commerce and Regulatory Affairs of the Committee on Banking, Housing and Urban Affairs, U.S. Senate (May 23, 1991) (hereinafter "*May 23, 1991 Senate Hearing*") (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 99).

²⁵ *Id.* (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 98).

²⁶ *Id.* (Statement of William Taylor, Staff Director, Division of Banking Supervision and Regulation, Federal Reserve System) (Transcript p. 140).

²⁷ Hearings Before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (Sept. 27, 1991) (Statement of Charles McC. Mathias, Jr., Director, First American Bankshares) (Legislate Transcript p. 15).

OUR INVESTMENTS IN FIRST AMERICAN STOCK

Public attention has been directed to our investments in the stock of First American, with special focus upon the financial arrangements for the transactions. We are pleased to explain our investments and place them in their proper context.

Following the acquisition of First American in 1982, we devoted enormous time and resources to the bank's management. Strategic concepts were adopted, financial objectives and controls were established, and a new spirit was created within the Company. In the ensuing 4 years, from 1982 to 1985, the assets of First American increased more than three-fold, from \$2.3 billion to \$7.2 billion.²⁸

The amount paid us by the Company was relatively modest. Mr. Clifford, as Chairman, requested, and was paid, \$50,000 a year—a modest amount compared to the substantial annual compensation paid to the top officials of major banks.²⁹ Mr. Altman, who served as President of First American Corporation and as a director of several First American banks, received no payments other than the usual director's fees. (As a separate matter, Clifford & Warnke, as general counsel to the Company, received fees for the legal services it rendered. Legal fees would have been earned without regard to the management positions we assumed at First American.)

Nor were we given the valuable perquisites that are normally provided senior officers of large corporations. We received no financial bonuses, incentive compensation, or profit sharing. We were not participants in the Company's thrift or pension plans. In 1987, at the age of 81, Mr. Clifford was provided use of a company car and driver. Mr. Altman received no car or driver.

If First American prospered under our leadership, we hoped to have the opportunity to invest in stock and thereby participate with the shareholders in the economic benefits we were creating. In effect, we chose to take our financial rewards as managers by making an investment in stock. This reflected our confidence in the future of the Company. In 1985, in the light of 4 years of sustained economic growth experienced by First American under our control, we discussed with Sheikh Adham the possibility of acquiring stock in the Company. We also discussed it with Mr. Abedi, as the advisor to the shareholders. We learned that the shareholders favored our investment in the Company.

We contacted our New York counsel, Wachtell, Lipton, Rosen & Katz, to obtain legal advice on the transaction. The attorneys consulted were experts in matters of corporate finance and in the structuring of stock purchase transactions. In addition, they had acted as co-counsel in the litigation and bank regulatory proceedings leading up to the acquisition of FGB in 1982 and were fully aware of, and directly involved in, the representations made to the Federal Reserve during those regulatory proceedings.

We did not obtain an outright grant of stock, nor were we awarded stock options. Rather, in the spring of 1986, an effort was going forward to raise additional capital for the Company through the procedure of issuing additional shares of stock. Each shareholder could purchase his pro rata interest in CCAH in those rights offerings. In conformance with established corporate practice, the shares were to be offered at book value. We had learned that certain of the shares in the offering might remain unsubscribed, and that we could purchase such shares *at the same price—book value—as was paid by the other shareholders.*

We determined to acquire shares on this basis, and, after considering alternatives, sought to finance this investment through bank loans, if possible. Wachtell, Lipton, Rosen & Katz advised us that any financing should be arranged on a non-recourse basis in view of the lack of liquidity of the shares of this closely held company. Counsel were particularly concerned that Mr. Clifford, who was then 81, should obtain financing on a non-recourse basis so that his heirs would not possibly be left with a substantial debt financing of an illiquid asset.

The first institution we approached for financing was Banque Arabe et Internationale d'Investissement ("BAII") in Paris, the consortium bank that acted as the lead lender in the syndicate that had lent \$50 million in connection with the acquisition of FGB in 1982. BAII was interested in making the loan and prepared draft documentation. When problems arose in the negotiation of terms by our counsel, however, efforts commenced to explore with BCCI financing for the contemplated stock

²⁸ Assets increased 41 percent and deposits increased by 39 percent during 1983. In 1984, assets grew by 26.7 percent and deposits increased by 32.7 percent. In 1985, assets increased by 20 percent and deposits increased by 21 percent.

²⁹ It is noted, for example, that the top officers of the other two major regional bank holding companies in Washington are reported to earn an annual salary of almost \$1 million, plus benefits and perquisites.

purchase. BCCI, too, was familiar with the stock being offered as collateral and the market for the shares.

BCCI agreed to provide the financing on the non-recourse basis recommended by our counsel.³⁰ We executed promissory notes to BCCI for our respective loan amounts of \$9,960,920 and \$4,979,352, together with related instruments. The borrowing was secured by a pledge of the acquired shares. (To be clear, the non-recourse feature of the debt meant that in the event of a loan default, BCCI would look only to the pledged security which had been agreed upon as collateral). We retained voting rights in the pledged shares. Thus, as Wachtell, Lipton, Rosen & Katz had originally advised, the structure of the financing satisfied our financial objectives while accommodating the lender's need to be adequately secured.

Neither the loans provided by BCCI nor the pledging of the stock violated any commitments to the Federal Reserve made in connection with the 1981 regulatory proceedings. This conclusion has been confirmed both by the New York attorneys advising us, as well as in the testimony by representatives of the Federal Reserve. As explained by Mr. Taylor of the Federal Reserve, "[t]here was no commitment not to borrow from BCCI. There was no commitment not to borrow from BCCI secured by the stock of CCAH, * * *" ³¹ Stated differently by E. Gerald Corrigan, President of the Federal Reserve Bank of New York, "[t]he mere presence of loans secured by CCAH stock * * * in and of itself was no violation of law and was not a violation of the Board's 1981 agreement." ³²

As noted earlier, our investment in CCAH stock was known to and encouraged by the shareholders. In addition, our intended purchase of stock was duly disclosed to and authorized by the Board of CCAH, the parent company of First American. In advance of the 1986 rights offering, Mr. Clifford personally informed Managing Directors Symington and Quesada that we intended to acquire stock in the corporation. The CCAH Board was informed of and consented to these purchases in writing. We also disclosed the acquisition of this stock to the Federal Reserve Board, by filing the annual reports required by the Federal Reserve for this purpose.

In 1987, the CCAH Board authorized another offering of new rights shares to raise additional capital for continued growth and expansion. As shareholders, we participated in this rights offering by purchasing our proportionate allotment of shares. As in the previous rights offering, BCCI agreed to finance this purchase of the shares, but only upon the condition that we discharge the accrued interest upon our prior loans, which had not yet come due. We agreed to this condition and paid the accrued interest—together over \$1 million.

In February 1988, Mr. Clifford wrote to BCCI to inquire whether a buyer could be found who was interested in purchasing some portion of our holdings. We wished to take advantage of the strong market for bank stocks that then existed. BCCI's relationship with Middle Eastern clients, who seemed the most likely candidates for a placement of these non-public shares, made BCCI the logical recipient of our inquiry. This also was consistent with the provisions of the loan agreements executed in 1986 and 1987.

In March 1988, BCCI advised that it had found a purchaser, subsequently disclosed to be an existing CCAH shareholder, Mohammad Hammoud, who was a Middle Eastern businessman of substantial means. Mr. Hammoud was said to be prepared to buy 4,800 shares.³³ If we agreed, this represented a sale of approximately 60 percent of our stock holdings. We decided to authorize the sale, and with the proceeds we extinguished our outstanding indebtedness to BCCI in its entirety.

We do not know whether Mr. Hammoud financed his purchase, though we understood he was a person of considerable wealth. We have been advised by accountants for BCCI that BCCI has no lien against those shares which were purchased in Mr. Hammoud's personal name. We note that Mr. Hammoud was not listed by the Federal Reserve in July of this year as one who had served as a nominee of BCCI.

³⁰ We believed at the time, and continue to believe that BCCI wanted us to become investors in First American because we had substantially increased the value of the shareholders'—its clients'—investment in First American.

³¹ Sept. 13, 1991 House Banking Hearing (Statement of William Taylor, Staff Director, Division of Banking Supervision and Regulation, Federal Reserve System) (Legislate Transcript p. 46).

³² *Id.* (Statement of E. Gerald Corrigan, President, Federal Reserve Bank of New York) (Legislate Transcript p. 57) (emphasis added).

³³ It is apparent that Mr. Hammoud had developed serious interest in First American, and purchased shares at each opportunity in 1986, 1987, 1988 and 1989. By purchasing our shares, he could purchase additional shares in subsequent rights offerings at book value and "average down" his cost.

It erroneously has been reported in these proceedings that we earned a \$33 million profit on this transaction, and that in March 1988 we sold our CCAH shares to BCCI. As noted, the stock was sold to the late Mohammad Hammoud, not to BCCI. Further, the net cash (after tax) we earned through this sale amounted to \$2.7 million for Mr. Clifford and \$1.35 million for Mr. Altman. (See Attachment I). The assertion that we "made" \$33 million on this investment is incorrect. The stock we continue to hold is of uncertain value, with no present market at all. Indeed, our subsequent investments in the stock probably represent losses.

In summary, our investment in the stock of the Company was undertaken with the encouragement of shareholders, with the unanimous consent of the managing directors of CCAH, and with the advice of counsel as to the structure of the transaction. We purchased an extremely small percentage of the outstanding CCAH stock (2 percent and 1 percent respectively) at the same price as was paid by all other purchasers in the rights offering. In 1988, we sold a portion of our stock, at which time our outstanding BCCI loans were fully repaid with interest. Our purchases were timely reported each year to the Federal Reserve.

The financing, purchase, and sale of this stock were completely legal and proper. Unlike the alleged sham loans to nominees, our borrowings were real obligations, fully documented, and were repaid over 3 years ago. These transactions did not contravene any representations made to federal and state regulators. Our participation in the rights offering benefited CCAH by providing capital necessary to permit continued growth.

In 1989, we again purchased our pro rata allotment of stock in a rights offering by CCAH. No BCCI loans were used to finance those purchases. In late 1990, when the Company again needed capital for support during the economic downturn, we invested in debentures that were issued for this purpose. No BCCI loans were used for that investment.

CLIFFORD & WARNKE REPRESENTATION OF BCCI

Clifford & Warnke has provided certain legal services to BCCI beginning in 1978 and concluding in 1990. We represented BCCI in the litigation and the related proceedings arising from the original acquisition of shares in Financial General by the investors. When that matter was concluded, we were asked, from time to time, to render legal services to BCCI on various corporate issues.

It should be noted that Clifford & Warnke was not designated as BCCI's primary legal representative in the United States. Rather, BCCI used many prominent firms in the United States. BCCI had significant legal representation by major firms in Florida, San Francisco, New York, and Washington, DC.

Attention has been given to our legal representation of BCCI after an indictment was returned against BCCI for money laundering in Tampa, FL. We were contacted by BCCI's London office and asked to recommend law firms to represent BCCI and its officers. Together with BCCI's Florida counsel, Holland & Knight, the largest law firm in that state, we provided the names of various defense attorneys, who were retained. We thereafter were asked to monitor the case for BCCI, consult with senior management, and assist with administrative functions, including the handling of a fund to pay legal bills.

Clifford & Warnke's legal services for First American and, separately, for BCCI were neither improper nor unusual. There were no ethical violations in these representations. Fees paid to the firm were consistent in amount with our normal billing practices.

RESPONSE TO "SECRET OWNERSHIP" ALLEGATIONS

In 1989 and 1990, we heard that BCCI might have acquired a secret ownership interest in First American. Certain press accounts during the period raised similar charges. While we believed these reports were wholly unfounded, we made inquiries to determine whether there was substance to the allegations.

In this regard, in connection with the Tampa criminal case against BCCI, an undercover conversation had been taped in which an individual, Amjad Awan, suggested that BCCI might own First American through nominees. We became aware of that evidence, secured a copy of the transcript, and reviewed it. In recent months, certain reports have quoted from the transcript and have made it appear that the individual had made conclusive assertions about BCCI's ownership of First American. The actual transcript is considerably less revealing or definite. Omitted from these recent reports is the following excerpt from the transcript, which places the comments in their proper context:

I have [a] totally different, uh, uh, assessment of the situation. And *it might be farfetched, it might sound stupid, but my assessment is*, that we own a bank in Washington. I may have mentioned it to you before.³⁴

The transcript of the undercover conversation clearly suggested that the individual was offering only personal speculation. We nonetheless asked BCCI counsel of record in that case to inquire of the individual and his separate counsel as to the basis for his statements. We were informed that the contention was, as it appeared, just a guess and the individual disclaimed any factual support for the assertion he had made.³⁵

We, together with the defense team of former federal prosecutors representing BCCI, pursued the subject several times in conversations with top management of BCCI. We received repeated assurances that these rumors and allegations were entirely untrue. We and the other attorneys found those denials to be credible.

As a separate measure, however, counsel later made a private inquiry of Price Waterhouse to determine if BCCI's files contained information which would support allegations of BCCI's ownership of First American, or its financing of the 1982 acquisition of FGB. We were informed that Price Waterhouse had been concerned about the issue, but that no documents had been found in BCCI's files that would substantiate the claim.

We also talked directly with some of the CCAH shareholders about these allegations. For example, at a meeting in July 1990 with Sheikh Kamal Adham and El Sayed Jawhary in London, we were emphatically advised that the allegations of BCCI ownership were untrue. We again found these statements to be credible.

In this regard, questions have been raised about our responses to federal regulators' inquiries when allegations arose during 1989-90 about BCCI's relationship with the First American investors. The record establishes that we informed the Federal Reserve of information we obtained—although preliminary and uncorroborated—that might relate to those allegations.

In 1989, questions arose about First American's relationship with BCCI. During the course of the Federal Reserve's review of First American's application to retain the Bank of Escambia, each First American bank CEO provided the Federal Reserve with information about its dealings with BCCI. In addition, in the Fall of 1989, in response to continuing regulatory concerns about BCCI, counsel suggested to senior Federal Reserve officials that they meet directly with the BCCI management in London and raise any issues they wished to discuss.

In early January 1990 and at other times that year, we informed Federal Reserve representatives—both orally and in writing—of reports we had received regarding large loans by BCCI to the First American shareholders secured by CCAH stock. We did not have documents or concrete information regarding these matters, but nonetheless provided the Federal Reserve with the unconfirmed reports and rumors we had heard. We note that we did not believe any such loans to be improper or to constitute nominee arrangements between BCCI and the shareholders.

In view of continuing allegations of BCCI ownership of First American in 1991, we attempted to contact all CCAH shareholders to advise them of the allegations and to request an opportunity to discuss the charges directly with each. This led to additional meetings and discussions with various shareholders. Those with whom we have talked—representing a majority of the stock—denied the charge that BCCI owned or controlled their shares.

Recent reports from England now allege that BCCI was in reality two banks: the seemingly respectable public institution with which we and others dealt; and a secret bank-within-a-bank that only a handful of BCCI officials had any idea existed. Indeed, the former Chief Financial Officer of BCCI has testified that at the time he was unaware of the fraudulent banking practices now said to have been engaged in by BCCI.³⁶ It is this secret internal bank that is said to be central to BCCI's hidden

³⁴ *United States v. Awan, et. al*, No. 88-330-Cr-T-13(B) (M.D. Fla.), Exh. 508-B, p. 13 (Transcript of tape recording made Sept. 9, 1988).

³⁵ We note that senior staff of the Federal Reserve recently has testified before the House Banking Committee that their investigators also interviewed Mr. Awan who had no first hand knowledge in support of this allegation. See *Sept. 13, 1991 House Banking Committee Hearing* (Statement of J. Virgil Mattingly, General Counsel, Federal Reserve) (Legislate Transcript pp. 22-23).

³⁶ Hearings on Narcotics and Foreign Policy Implications of the BCCI Affair Before the Subcommittee on Terrorism, Narcotics and International Operations, Committee on Foreign Relations, U.S. Senate (Aug. 8, 1991) (Statement of Masihur Rahman) (Transcript pp. 20, 96-97).

ownership of stock in First American. If the allegations about BCCI's secret ownership interest of stock in First American prove to be true, then we shall be counted among the many persons whom BCCI deceived.

It is, however, important to note that the allegations relating to secret ownership of CCAH stock by BCCI are, at this point, unresolved. Certain of the CCAH shareholders, including for example, Sheikh Zaid of Abu Dhabi, President of the United Arab Emirates, apparently are not challenged by the Federal Reserve as being bona fide owners. Others—alleged to be BCCI nominees—have denied the charges (See Attachment A hereto).

It must be recalled that the allegations concerning CCAH stock apparently are based almost exclusively on BCCI's internal books and records—documents which are said by Price Waterhouse, BCCI's auditors, to be incomplete, ambiguous, and of questionable authenticity. It is therefore appropriate that caution be exercised before all the allegations are equated with factual determinations.

Like others outside of BCCI's management group, we simply do not know the true facts about BCCI. We are among many people who dealt with BCCI in good faith for years and are mystified and embarrassed by the reports we read about widespread fraudulent activity. President Carter, who engaged in charitable endeavors supported by Mr. Abedi and BCCI, has stated:

I have obviously been shocked and disturbed at what has been revealed in the last few months. * * * [A]ll of these revelations have certainly been an amazing thing to us, and we're very shocked and grieved and disturbed by it.

* * * * *

We didn't know the facts. I don't know how much of the fact was known by anybody in this country. All the time I was dealing with the bank, we were one of the recipients of their interest in improving the lot of people in the third world. That's all I know about them.³⁷

Similarly, former British Prime Minister Lord Callaghan, who had been on retainer with BCCI, recently was quoted as saying of Mr. Abedi:

I don't believe he [Abedi] was an evil man. * * * I felt he was genuinely concerned, that he had ideals. I found him a man I would honor. A year ago I would have had no hesitation of saying that Mr. Abedi acted out of altruism. Maybe I was a sucker.³⁸

Other prominent figures, including the Secretary General of the United Nations and our former Ambassador to the U.N., Andrew Young, appear similarly surprised and distressed.

Some question how—as persons who dealt regularly with BCCI for years—we could be unaware of the alleged fraud. We have, of course, carefully searched our memories for any missed indication that a fraud was being perpetrated, but no signs of misconduct are readily apparent to us. And one must recognize the practical impossibility of a corporation's management knowing what any shareholder does with his stock once purchased—particularly when the shareholders are located in the Middle East. As the General Counsel of the Federal Reserve Board has recently observed, "[f]raud is hard for anyone to detect, especially when the transactions are deliberately structured to conceal true relationships, and when the relevant information is outside the [United States]."³⁹

Many persons and entities who, unlike us, had powerful investigative resources, direct access to BCCI's books and records, and a duty to oversee BCCI's operations, apparently now say they were deceived, including the Bank of England, the Directorate of the Luxembourg Monetary Institute and the Grand Cayman Inspector of Banks and Trust Companies. BCCI allegedly misled its best customers and strongest supporters in the Middle East, including Sheikh Zaid bin Sultan al Nahyan.

We look forward to the completion of the current investigations and the ultimate resolution of these disturbing allegations.

CONCLUSION

In 1981, representations were made to regulators during the application process that we, together with a distinguished Board of Directors, would assume responsibility for First American and ensure it was operated properly. We have faithfully hon-

³⁷ *Nightline: Jimmy Carter's Relationship with BCCI* (ABC television broadcast, Aug. 8, 1991) (Show #2664) at 2-3.

³⁸ *BCCI Adept at Courting the Powerful and Rich*, Washington Post, Aug. 7, 1991, at A-1.

³⁹ *May 23, 1991 Senate Hearing* (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Legislate Transcript p. 102).

ored that obligation. We know that First American was honestly and capably run throughout the tenure of our management, that it prospered under our leadership, and that our own conduct was entirely proper. No depositor at First American has ever lost any money. No investor or bond holder has been cheated. No customer has been defrauded. Management has not lived royally using federally insured deposits. There have been no "sweetheart" loan abuses by insiders at First American. First American banks were not engaged in money laundering. BCCI never secured any improper financial favors or advantages from First American. U.S. taxpayers have not had to bail out the Company.

We are proud of our accomplishments at First American, and secure in the knowledge that whatever concealed interest BCCI may have held in the Company's stock, any such interest never translated into actual control over First American's operations.

We will continue to cooperate fully with all official inquiries into this matter, and appreciate the opportunity the Committee has afforded us to set forth on the public record the facts about First American.

Senator KERRY. Thank you very much, Mr. Altman.

Senator Jeffords has joined us. I do not know, Senator, if you have any opening comments.

Senator JEFFORDS. I have just a brief opening statement, Mr. Chairman, that I'd like to make it part of the record.

I do have one question that I would like to ask if I could do that at this time? I have to leave to go to the markup of the higher education bill.

Senator KERRY. That is fine, sure.

Senator JEFFORDS. Mr. Clifford, you have given us a very excellent statement of your position on what happened. And you are a very impressive gentleman. I note that you indicated that a number of people, as well as yourself, seem to have been deceived here, including the Bank of England. Mr. Altman mentioned the Bank of America, Price Waterhouse—all apparently were deceived by the activities that went on. In my mind, the task before this committee is to try to see what we can do to prevent such activities from occurring in the future, so that individuals or banks will not be deceived.

It would certainly be very helpful to me if you and Mr. Altman could let us know based on your experience, what kind of national or international structure, organization or regulation needs to be set up to prevent the occurrence of such events in the future?

Mr. CLIFFORD. I have read the pending legislation, Senator, Senate bill 1019. And I think it is excellent.

I have also read a written memorandum by Virgil Mattingly, the General Counsel of the Fed, in which he comments in the legislation, and indicates the portions of it that he considers to be so favorable from their standpoint.

I was especially struck by a comment by Mr. Mattingly that he says that the Fed is considering the possibility of setting up what he called a special investigative unit, to investigate situations brought about by the experience with BCCI, so that people would not be misled, as you have suggested; so that there would be a forum of international cooperation between the nations of the world; so that there must be certain basic information that we must receive in this country before we permitted a foreign bank to do business.

I commend the legislation. I particularly recommend the approach of Mr. Mattingly. And I venture to say I deeply regret, Sen-

ator, that that wasn't the law when we became involved here. It would have saved us the most painful period of our lives.

Senator JEFFORDS. Mr. Altman, do you have a comment?

Mr. ALTMAN. I would supplement what Mr. Clifford says by observing that there are now reports—and we don't know the accuracy of them—that indicate that some of the branches of the Federal Government had information about BCCI that—for whatever reason—was not disseminated to other branches of the Government, such as the Federal Reserve.

I think it might be a profitable exercise if there could be some attention given for mechanisms being set up so that when this kind of information comes to the attention of the authorities, it would be shared in a meaningful way with regulators, and others who need to have it in order to perform their jobs, and discharge their responsibilities.

Again, it would have been very important to us. It would have saved us a great deal, if this kind of information could have been brought to our attention years ago.

Senator JEFFORDS. Thank you, Mr. Chairman. I want to again commend you and the Senator from Colorado, Mr. Brown, for your work in this area. There's been a tremendous contribution to our Nation.

Senator KERRY. Thank you very much, Senator Jeffords, appreciate it. Thank you.

Gentlemen, let me try now to begin a process of inquiry that I hope will put in front of you some of the doubts, and sort of questions that people have, as they look at the panoply of documents and assertions that have come forward.

I do so understanding that the record may obviously not be complete. We do not have all the documents. So you may have a document that suddenly appears, and it says, aha, this is indicative of this. And there are 20 documents that indicate something else. And that is the question. Are there documents that indicate something else, and where are we here?

There are a number of areas that I want to try to compartmentalize, if I can. And we will try to divide it up, as we go along here.

But one of the benefits will be we are not squeezed into sort of a 5-minute craziness here. And I think we can have a dialog, hopefully.

One of the things that troubles a lot of people, as they look at this case—and there are many things that trouble us, and I think you know that—is this question of what you should have known, or what you knew in the early stage?

Now, Mr. Clifford, in your testimony, you essentially spoke as the chairman of the bank. And you spoke from the bank perspective. But you also wore other hats. And that is part of the complication here, the hat you wore as an attorney for BCCI; the hat you wore as the attorney for the bank that you were president of.

And I am not sure that you really spoke to us today from either of those vantage points, in a sense, though they are always confused, and there is a mutuality.

The question initially arises about the due diligence of the effort to learn about Mr. Abedi and the bank itself. And I believe that you have said, previously, that you talked to Government person-

nel, and made some kind of inquiry—or some—you read an article in the Economist or something.

Is that the extent of the inquiry into who these people were, and what the nature of BCCI was back in—during the initial takeover of Financial General bank shares? Either gentleman who wants to answer it——

Mr. CLIFFORD. I'll start, and we'll see if Mr. Altman has anything to add.

You do refer to an article in the Economist a highly reputable British publication, which had an extremely commendatory article about Mr. Abedi and BCCI. We also had the advantage of being able to talk to Bank of America. Bank of America was in with BCCI from the very beginning. It was organized in 1972. Bank of America was anxious to have a presence in the Middle East. It's very difficult to break in alone. And here was operation which already had established contacts in the Middle East. So Bank of America came in from the very beginning, and took a 30-percent interest in BCCI.

They had, by the time they got to us, in—let's see 1978—why they'd been in the picture for 6 years. Their opinion of BCCI was a commendatory one. They had felt that their operation was a success. And I believe the reason that—over a period of time—they withdrew from the relationship was, they did not need BCCI anymore. They established their own contacts by that time, over the 6 years in the Middle East.

Senator KERRY. Well, did they not have some problems with BCCI? Did Bank of America not come to have some problems which actually came out in the course of the depositions regarding the takeover?

Mr. CLIFFORD. It is my understanding of that, Senator, that some questions were raised by Financial General at the time, about First American's attitude—excuse me—about Bank of America's attitude. And Bank of America answered those questions publicly, with two public releases in which they stated that they had not had any difficulty with their experience with BCCI.

Mr. ALTMAN. I might just supplement that point, Mr. Chairman. I have here a press release from Bank of America. It's dated January 30, 1978. This is around the time that our representation commenced. And Bank of America was responding—oh, I'll just give you a couple of quotes.

Senator KERRY. What was the date, again, on that?

Mr. ALTMAN. January 30, 1978. And I'd be glad to make it a part of the record.

Newspaper articles have appeared, recently, suggesting that Bank of America is contemplating divesting its shareholding in BCCI. These reports have appeared following a recent reduction in Bank of America's holding in BCCI, following a rights issue in which Bank of America did not participate.

Bank of America is currently increasing its direct presence in the Middle East, and to have increased its capital commitment in a bank in which Bank of America had less than a majority holding, or management control, would be inconsistent with current Bank of America strategy.

They go on to say, Bank of America intends to retain a shareholding in BCCI for the foreseeable future, and the close cooperation that has developed between the two banks will be maintained. And they acknowledge that over the next several years they will be selling their stake.

They also issued a press release in September 1978 in response to that matter that you have referenced relating to the litigation, in which they felt it necessary to correct misunderstandings, or inaccurate reports that had appeared in the newspaper about their attitude concerning BCCI.

Senator KERRY. What is the gist of that piece?

Mr. ALTMAN. I will quote you, again, a couple of relevant sentences.

Bank of America feels that in order to dispel any misunderstanding, it is necessary to address the Financial Times report which appeared in yesterday's edition of the newspaper. The specific points referred to in that article, attributed to Mr. Douglas Krause, a lawyer acting for financial bank share, appear to be taken from Bank of America credit review files. They describe the files and say that these are analytical, conservative, and closely controlled. It is Bank of America's present opinion that BCCI's loan reserve has been established in accordance with prudent, risk management practices. Bank of America has maintained representation on the board of BCCI since the inception of its relationship.

Then it goes on—it refers back to the earlier press release:

Thursday's report suggests that the matters contained in Mr. Kraus' statements contributed to the Bank of America's decision to reduce and eventually sell its BCCI shareholdings. As Bank of America has heretofore publicly announced, its reasons for that action are related solely to changes in market conditions, particularly in the Middle East, which make it appropriate for both institutions—the bank and BCCI—to discontinue the relationship.

And I would also note—although I am reluctant to cite news articles, in terms of accuracy—but I would also note that Time Magazine ran an article on October 7, 1991, in which they indicated that Bank of America, throughout the 1980's continued to have a very close relationship with BCCI, handling—according to this article—\$1.3 billion a day of BCCI money.

Senator KERRY. I think that one of the things that has intrigued people, is the degree to which Bank of America may, in fact, have uncovered some problems, and then pulled back, and then kind of sloshed it over. And then, indeed, had competed as intensely as every other bank in the country did for the cash transactions. And there is obviously a significant flow of money from BCCI through Bank of America.

So, what I am getting at, is that there are many who said, well, they kind of washed their hands of some of their problems at the time, but were not willing to wash their hands of the profits at the time. And so they continued to flow.

Now, that is outside of your scope. But that is the picture that I think many have drawn from that. I am not referencing the news articles, themselves. But in the documents that were filed in the course of that takeover, Bank of America documents, themselves, asserted that BCCI or its subsidiaries or affiliates, had made substantial loans to three or four of the Middle Eastern defendants in that suit—these are the people you were representing—among them, was Mr. Fulaij. And there was an assertion that he had re-

ceived a \$5 million loan from a BCCI subsidiary, in order to purchase his shares of Financial General bank shares.

Now, that assertion was made in 1978 and was part of the suit in which you were involved as attorneys. Evidence now documents that not only did he receive \$5 million in loans, but Price Waterhouse shows that by 1986 he had \$61 million; and by 1989 he had \$113 million.

So, in fact, the very assertion that was made in your suit, in which you were involved in 1978, is now proven to be the very case not only with him, but with others. And as the flag is sort of waved saying, you know, should that have not set off some kind of inquiry, since you were involved in that suit, and there are other evidences of the Bank of England refusing to grant a full banking license. The bank had been the longest delayed bank in England to receive a full license. And it did not receive the full license because there were concerns about the rate of growth, the manner in which it was growing, its sources, and the nature of its investors. None of that came to your attention, I take it?

Mr. ALTMAN. No, Senator—some of this did come to our attention, but I'd like to see if I couldn't clarify it for the record.

First, you referenced the loan to Mr. Fulaij. There was a loan to Mr. Fulaij. The loan was made by an affiliate, or subsidiary of BCCI in Kuwait—I think it's called KIFCO—and that loan, we knew about at the time. It was disclosed to the Federal Reserve at the time. He testified about that loan, at some length, in deposition testimony. So this was no secret.

And generally, it was well-known that these shareholders had extensive banking relationships with BCCI. That was also known. In fact, most of them, I suppose, own stock in BCCI, or at least certain of them owned stock in BCCI. So the relationship with BCCI, and in particular, the loan to Mr. Fulaij was a fact that we knew at the time.

I would only suggest that there be—there be some caution exercised in reaching conclusions about the extent of Mr. Fulaij's loans today. Because we have seen reports—again, I don't know if they are accurate—that one of our other original shareholders, the ruler of Dubai, was reported to have \$121 million in loans. It was on the front page of the Wall Street Journal and reported widely. And subsequently, he issued a statement. And it may even have been retracted by Price Waterhouse—he issued a statement that he had not borrowed any of that money from BCCI.

So there's a great deal of question about the records at BCCI. Perhaps Mr. Fulaij does have those large borrowings. I don't know what the answer is. And I don't know if he does, what they would relate to.

But the original borrowings from BCCI by Mr. Fulaij, were disclosed to the regulatory authorities, and didn't seem to be a particularly controversial item.

Senator KERRY. Well, that raises another set of questions, which I was going to get into later. But I mean, throughout this process, it appears as though Price Waterhouse gets failing grades. I mean you are just asserting that—or you have to be cautious, because you do not know if Price Waterhouse's certified figures are, in fact, accurate. Is that correct?

Mr. ALTMAN. That is correct. And I believe it is Price Waterhouse, itself, which has said that they have based those on records, and now they question the validity or authenticity of the records. So——

Senator KERRY. And indeed, there is a pattern, it seems to me, through this of Price Waterhouse's various entities having provided information as Mr. Sakhia said, that was either negligent to the *n*th degree, or conceivably, purposely altered. And we do not know the answer to that.

But that a lot of what has happened here, was based on certifications made by Price Waterhouse that are clearly, now, way off base. And you would accept that?

Mr. ALTMAN. I do not know whether Price Waterhouse was negligent, because I'm not familiar what happened in their audits; what they were told; and what their requirements are that they're supposed to follow in certifying statements. But it would certainly raise serious questions that they have certified financial statements, year after year, and now there is a report that all of those statements are, in fact, woefully erroneous.

Senator KERRY. Were you aware of the relationship with Price Waterhouse, Cayman Islands, and BCCI?

Mr. ALTMAN. Are you talking about the recently reported loan?

Senator KERRY. The loan of \$600,000.

Mr. ALTMAN. The first I heard about it was a result of this committee's efforts.

Senator KERRY. Is that an appropriate banking practice, for a bank to be lending significant sums to its auditing entity?

Mr. ALTMAN. I would say, when I read it, it struck me as unusual. I don't know if it is done. I don't know what the practice is. But I think that it seemed to be curious.

Mr. CLIFFORD. The reason I thought it was unusual, Senator, is that I never heard it happening before, ever.

Senator KERRY. Thank you.

Let me ask you now, in the early inquiry you made, there was a very fine article on you, Mr. Altman, that appeared in the business section of the Washington Post. And in it, you were quoted as saying, with respect to your early inquiry, that you checked with some of the most—this is a quote, and again, I cannot attest to the accuracy—but it checked with some of the most senior Government officials to find out whether this would be in conflict with U.S. policy, or whether it would be contrary to the economic interests of the United States—which was a sensitive subject in 1978, with oil supplies in the Middle East.

But, quote "Altman's and Clifford's contacts gave them a green light. We were not only advised that it would not be inconsistent with U.S. interests, but we were encouraged to take this on, as being quite valuable to the United States, were we able to do it."

Can you share with the committee who gave you that advice, and who you checked with as senior Government officials?

Mr. CLIFFORD. Perhaps I did it, to some extent. It's 13 years ago. I knew people in the State Department, because they were there, and I had worked with them. And I checked in the State Department. I have a recollection of checking in the Commerce Department. And from one source that I checked—I did not go to the Cab-

inet members, these would be staff people—but at one source that I checked, they indicated that the United States was sending, at the time, \$70 to \$80 billion a year for the purchase of crude from the Middle East. And as far as our Government was concerned, it would be their preference that as much of that money flow back to the United States as possible. It did us no good if it went to West Germany or Switzerland or Great Britain.

So that there was no objection leveled at the time, to effort by this group of Middle Easterners to acquire an American bank.

Senator KERRY. Well, was the—excuse me, Mr. Altman, did you want to add?

Mr. ALTMAN. I do recall a conversation we had with Arthur Burns, also of the Federal Reserve. He was not, then, the Chairman of the Federal Reserve, who expressed a similar opinion. And I also recall that Senator Symington, at the time, had had some conversation with Government officials, and he was very much taken with this notion of recycling petrodollars, as a result of his discussions.

Senator KERRY. You do not consider staff to be senior Government officials, with all apologies to staff behind me.

Senator BROWN. I do, Mr. Chairman. I do not know about them. [Laughter.]

Senator KERRY. I should not have my back turned to them, now.

Senator BROWN. I feel comfortable.

Senator KERRY. Do you recall beyond that, did you check with the CIA at all?

Mr. ALTMAN. I did not.

Senator KERRY. Was there any run through Justice Department?

Mr. CLIFFORD. No, and I think the reason that I didn't was because information had come, as we were dealing—my recollection is—with the Fed, that the Fed, in its investigation was checking the CIA, and checking the Justice Department, and checking other departments of Government.

Mr. ALTMAN. Yeah, we did hear that in connection with the acquisition proceedings, that the Fed had talked to some of these Government agencies. But we didn't—we weren't privy to that information.

Senator KERRY. The reason I ask that, is that in the House, Mr. Clifford, I believe you said that I learned from others, that our intelligence operations had a very high opinion of him—referring to Kamal Adham. They felt he had cooperated exceedingly well with the United States. And I wondered where this feedback from intelligence on Kamal Adham had come from?

Mr. CLIFFORD. I do not have a specific memory of that.

Senator KERRY. Do you remember, though, that they signed off on Kamal Adham?

Mr. CLIFFORD. I know that the Fed signed off on Kamal Adham, and accepted him as a legitimate, and well-regarded purchaser of First American. I know that.

Mr. ALTMAN. There has been a recent newspaper report that I have seen, that a man by the name of—I believe it's Raymond Close, a former CIA man, stationed in Saudi Arabia, had spoken to the press in a very commendatory way about Kamal Adham. That was the general sense that we had of him when we were dealing

with him. I don't know Mr. Close, and I never talked to him. But I've seen the reports.

Senator KERRY. You never met Mr. Close?

Mr. ALTMAN. No, sir.

Senator KERRY. Did either of you ever know him?

Mr. CLIFFORD. I did not.

Senator KERRY. Did you know of him back in 1978?

Mr. ALTMAN. No, sir.

Mr. CLIFFORD. I did not.

Senator KERRY. But your comments then, to the House, seemed to indicate some contact with the Intelligence Committee. Are you saying that—with the intelligence community. Are you saying that the information did not come from the intelligence community regarding Kamal Adham?

Mr. CLIFFORD. I cannot recall where it came from. I had many conversations with individuals. And I'd had some background in the intelligence field. And it may have come from those contacts that they had regard for him.

Senator KERRY. Well, maybe I will come back to that later.

Let me turn now to an issue, that is another one of those issues—I mean I do not think this question of how much you might have known then or not is a turning point, or a critical component of this. I think it is one of the things that obviously has flagged a lot of people. Because there were entities, regulatory entities, as well as others, who were saying we are concerned that this bank seems to have appension to find nominees. And that it kind of grew, very rapidly, and shakily.

But let us assume that you—that you went through that process, that you had a green light, that everything seemed like go. This seemed like a good opportunity, and a challenge, as you have described it.

So we go to another level, here, which is the question of what was the standard, the expectation by which this relationship was supposed to be carried out?

That standard, it appears, was set out by the Fed and others in discussions with you. And I would refer you to the documents, now. I believe it is—I do not have the numbering the same way. It is the document—the Muckenfuss letter, the Controller of the Currency. Document No. 10, in your document book.

Document No. 10 is a letter to the Board of Governors of the Federal Reserve, from the Controller of the Currency, Senior Deputy Controller of the Currency, Mr. Muckenfuss. And in this letter, in page 2, paragraph—second paragraph in No. 2, highlighted here, it says the following: "Members of the proposed investors group for Credit and Commerce American holdings, N.V., Credit and Commerce, American Investment B.V., also hold an interest in BCCI. It has now been represented to us"—and this is the operative, and I think critical language:

It has now been represented to us that BCCI will have no involvement with the management, and other affairs of Financial General, nor will BCCI be involved in the financing arrangements, if any are required, regarding this proposal. This commitment is critical, both now, and in the future, since such a relationship with another financial institution would be a significant factor in appraising this application. This is especially important in light of the overlapping ownership, which will exist between Credit and Commerce American holdings, Credit and Commerce

American Investment, and BCCI. Moreover, any enhanced, direct or indirect affiliation or relationship between BCCI and Financial General, would take on even greater significance in light of the fact that BCCI is not subject to regulation and supervision on a consolidated basis, by a single bank supervisory authority.

Now, that—it is your understanding, I gather, from testimony, previously, represented the state of the takeover. Is that accurate?

Mr. CLIFFORD. I think the correct answer would be first, Senator, we are very familiar with that language. We have been over it on a number of occasions. And the background of the whole affair is, that if you look at that language in the light of what was known to the Government at the time, both to the Controller General's Office, and to the Fed, it was known that there'd been a definite agreement upon our part, in three areas: one, BCCI would not acquire any stock in First American at the time of the tender offer; two, that they would not, in any way, finance the purchase of the stock of First American; and three, that they would have no control over the operation of First American.

We presented that. We emphasized it. At the same time, at each stage, we informed the regulatory authorities that they were two areas in which we would continue to have a relationship with BCCI. One is they would be the communications link with the investors; and second, they would continue to be investment advisors. And that was known from the beginning, by the Government regulatory authorities.

Mr. ALTMAN. A couple of additional comments, if I might, Mr. Chairman—one, I want to go back to your introductory comments, before you got into the specifics of the letter, in which you indicated whether there were flags there.

It is certainly true that we were aware of regulatory issues that arose about BCCI's status. But I think it is very important to put on the record, that at no time did we get any information, or get any sense that the regulatory issues related to the lawful operation of BCCI, the ethical practices of BCCI—these were regulatory issues, not issues relating to whether BCCI was—I think you used the word a shady operation. That was not at all the sense that we got from any regulatory authority during this period.

Senator KERRY. The terms may be arguable. But when regulators say, as they did in this letter, conventional financial data has not been available on certain investors. And what they basically certify to is the financial strength based on their disclosures. But they say, their financial disclosures are less the conventional. It seemed to me—I mean, I have read through some of the background—and I do not think this is a point worth arguing a great deal about—but it seemed to me that what the regulators are really saying is, you know, we are not sure we trust these guys. We do not know enough about them.

So we want to know that we are protecting interests here. And we are expecting you to do it. And you are going to make certain representations which guarantee to us that they are going to be protected. And the representations that I believe you made, as set down by Mr. Muckenfuss is that now and in the future—I mean, it says "and in the future there won't be a financial relationship." And also, it says there won't be any financial or management dealings.

I am just asking, do these words not mean what they say? BCCI will have no involvement with the management and other affairs? What does that mean?

Mr. CLIFFORD. That's what it says, and that's what it meant. And that's the situation that existed then, and that's the situation that existed for 9 years. If you talk about involvement in the management, of having anything to do with making decisions and all, they had none. And they have not had all during the 9 years.

Senator KERRY. That is what I thought was the standard, and we agree on the standard. The question is, now, is that, in fact, what happened over the course of those 9 years?

Mr. ALTMAN. Well, Mr. Chairman, if I might—

Senator KERRY. Absolutely.

Mr. ALTMAN. I think that you have to put this language in context. And my original comments—you were reading from a document that I'm not familiar with.

Senator KERRY. Well, the document I was reading from is this letter.

Mr. ALTMAN. Well, sir, I thought you were reading from another one about financial information about people.

Senator KERRY. No, that's the same document. That's paragraphs 4 and 5, same document.

Mr. ALTMAN. It wasn't the highlighted part.

The issue about the letter from the controller, I think has to be looked at this way. It is true that the controller understood that BCCI was not going to control this operation. But the controller also had available to it, information which placed this in context. The controller had the application, which indicated that BCCI was going to have a continuing role; that BCCI was going to continue to provide advisory and other services to the shareholders, with respect to this company, First American. The controller had available to it information that there were ties between the shareholders and BCCI. They owned stock in BCCI. They had banking relationships with BCCI. The controller attended the hearing at the Federal Reserve in 1981, when 4 of the investors appeared and testified. And at that hearing, there was testimony about the fact that BCCI was going to continue to have this investment advisory role, this role as a communications link—this kind of information was known to the controller.

So it's a question of what the language should be interpreted to mean.

Senator KERRY. I agree with that. And I thought Mr. Clifford had defined it, and I thought that the language meant what it said.

I mean, you see, the difficulty here, Mr. Altman, is obviously that I agree with you. All of that information was in front of the regulator.

Mr. ALTMAN. Right.

Senator KERRY. And it was in reaction to that information that there were difficulties in proceeding forward. There was resistance. Which is why that extraordinary hearing took place—I mean, it was unusual to have that.

Mr. ALTMAN. Yes.

Senator KERRY. And it was so unusual that in fact, Mr. Clifford appeared, and you brought Mr. Adham, I believe, correct?

Mr. ALTMAN. That's correct, Mr. Adham and three others.

Senator KERRY. In order to persuade these people that this was bona fide.

And part of the process of persuasion required you to say to them, there will not be any financial dealings. There will not be any crossover. There will not be any interrelationship in the affairs. And it was based on that representation, I believe, that this letter says very clearly, this is especially important, in light of the overlapping ownership.

Any enhanced—direct or indirect—affiliation or relationship would take on greater significance. And they were very specific, I think, in saying we are going to give you a green light. But it has to be on the terms that are set forward here. Am I wrong?

Mr. ALTMAN. Sir, that is not entirely accurate.

Senator KERRY. Well, help me, then.

Mr. ALTMAN. Because this is what keeps leaping out. I mean, they still—I believe—interpret it that way.

A couple of points—the controller understood that we were going to have continuing dealings with BCCI, about this particular investment, for the shareholders. We have documents that indicate that the controller was advised that we would continue to consult Mr. Abedi for ideas. Some of his ideas we might accept, some of them we might reject. But the point was the decisionmaking authority would repose not in BCCI, but in the American board.

Now, you have said that there were to be no financial arrangements between BCCI and these shareholders. But the Federal Reserve recently testified before the House Banking Committee. And they were commenting on the existence of loans to these shareholders from BCCI, that had been discovered. And both Mr. Taylor, the Director of—former Director of Supervision and Regulation at the Federal Reserve, and Mr. Corrigan, who was President—is President of the Federal Reserve Bank of New York, said there is no prohibition of borrowing from BCCI; there was no prohibition of borrowing from BCCI even when the stock of First American is placed as collateral.

There were specific understandings as to the transaction. But I think the point that you are getting to, is who is going to end up controlling the operation? And it was clearly understood that control would vest in Mr. Clifford and the American board.

Senator KERRY. The question of control is obviously a really difficult one. We are not going to resolve it here. It is a legal term. And the fact pattern is complicated as to that issue.

But I guess, to the average person, looking at this, the issue of control in terms of a communication or a directive, is very difficult to distinguish. If Mr. Abedi says to you—as Mr. Abedi, and you don't know which hat he is wearing, whether he is president of BCCI, or speaking to you as the investment counsellor—he says to you, you have to do this, or we want you to do this. He can be relaying to you information from investors, or he could never have talked to the investors, and simply be directing you, as the head of BCCI. I mean that is certainly possible, is it not?

Mr. CLIFFORD. Let me try that, Senator.

The use of the word control has caused a great deal of confusion. When the Fed first came out with statements at the beginning of

this year, they talked about having found information and evidence that indicated that BCCI controlled First American.

There are two kinds of control. At one time, Mr. William Taylor, fortunately, described them. One kind of control is whether someone owns or has in its possession sufficient amount of stock, so that under the Federal Rules, that constitutes control.

But he says there is another kind of control, and that is actual, management control. Now, what we said to the authorities, what we have continued to follow meticulously, is that there would be no management control of any kind, as far as American—as far as First American is concerned, except the board and its chairman of First American.

Senator KERRY. Well, let me come back to that after a little bit here. I want to let my colleague, Senator Brown, have a round. And then I will come back.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Secretary Clifford, let me ask—I am not sure I got it correctly.

I thought you had mentioned that BCCI made three assurances to the Federal Reserve, one of which was that BCCI would not finance the purchase of First American stock.

Mr. CLIFFORD. That was the first one.

Mr. ALTMAN. Excuse me, just for the record—that was not a representation by BCCI. That was a representation by the investors who were making the application for approval.

Mr. CLIFFORD. And it was confined, I might say, to that particular transaction of the tender offer. It said that the applicants shall not, in any way, acquire stock in First American as a part of the tender offer proceeding. That was No. 1.

Senator BROWN. So that the financing by BCCI later on, of your own stock, you feel was not a violation of this representation?

Mr. CLIFFORD. I feel that very strongly.

Mr. ALTMAN. And that was confirmed, Senator, by recent testimony by Mr. Taylor and Mr. Corrigan. I'll read you a couple of sentences from their testimony before House Banking. Quote, "There was no commitment not to borrow from BCCI; there was no commitment not to borrow from BCCI secured by the stock of CCAH." He says, the commitments required that in order to determine a violation, that the investors borrowed money from BCCI to affect the original transaction. Mr. Corrigan went on to say, the mere presence of loans secured by CCH stock, in and of itself, was not a violation of law, and was not a violation of the board's 1981 agreement.

Senator BROWN. Well, the letter that the chairman talked about, says it has now been represented to us that BCCI will have no involvement with the management, and other affairs, of Financial General, nor will BCCI be involved in the financing arrangements, if any are required regarding this proposal.

Regarding that assurance, your interpretation of that is that only applies to the initial acquisition of the stock?

Mr. ALTMAN. And that is also the interpretation of the Federal Reserve, as I've just indicated.

Senator KERRY. Did the Fed change its position on that? I mean, I must say that I do not understand what it means—this commit-

ment is critical both now and in the future. I mean what does in the future mean?

Mr. CLIFFORD. Can we turn to the footnote on page 16?

Mr. ALTMAN. Yes, sir, we have it—I think I can answer that fairly simply, Senator.

Senator KERRY. Page 16 of your testimony?

Mr. ALTMAN. No, he is talking about, I think, the Federal Reserve application.

Mr. CLIFFORD. The Federal Reserve application.

Senator KERRY. Why do you not just say that?

Mr. ALTMAN. That footnote also contains the language to the effect that BCCI is not a lender, nor will it be, with regard to the acquisition of the stock—or some language to that effect.

The reason you have language relating to the future is because this letter from the controller in 1980, and the application which was filed in proceedings in 1980, it went into 1981, it related to a transaction that did not take place until the spring of 1982. So what they were saying is that BCCI has not made the financing, and is not financing the acquisition of the company, but it relates strictly to that specific proposal. That is our understanding.

I might say, the other law firms that were involved in it have so stated. The attorney who drafted the language said that was his understanding of the language. And the Federal Reserve has now testified that that was how they interpreted the language.

Senator KERRY. Thank you, Mr. Brown. I thought we would turn now to the stock arrangements and the compensation discussion.

As background for us, would you tell us what it was you paid for the stock when you purchased the stock?

Mr. ALTMAN. When we purchased the stock, Senator, we purchased it at book price—the same price that was paid by all the shareholders. And it was roughly \$2,200 a share—a little more than that, I believe.

Mr. CLIFFORD. \$2,216.00.

Mr. ALTMAN. \$2,216.00.

Senator BROWN. Did you borrow to finance that acquisition?

Mr. CLIFFORD. Let me start it, and if Mr. Altman has anything to add—this was in the end of 1985. As the fortunes of First American were improving so dramatically, that we considered that that was an appropriate time to acquire some of the stock.

Let me emphasize, Senator, this was stock in our own company. Apparently, oftentimes, others have gotten that confused. But here we were, I was chairman of the board of First American, and I wanted to own some stock in my own company.

We started toward the end of 1985 thinking about it, because we already knew there was going to be a rights offering sometime in the spring of 1986. Our first thought was that we would borrow the money from a French bank, BAI are the initials—Banque Arabe et Internationale d'Investissement. And Mr. Altman had worked with a Mr. Bradshaw there, back at the time of the acquisition of the old Financial General. So he knew them. He started the conversation. Then we turned it over to our New York lawyers, who were experts in commercial transactions of this kind.

They negotiated at some period with the French bank, and they said, after a while, we're never going to agree with those people.

They have such a queer way of going at it, so different from our way of doing it.

After having said that, I am the one who then spoke to Mr. Abedi, and said we would like to make the purchase of this stock, it's left over from the rights offering. And we would like you to consider lending the money.

He said, I will lend you the money, if you put up all of the stock as collateral for the loan. And the reason he had that in mind was there were occasional sales and purchases of the stock. And if he took the stock in as collateral, at book value, I think he felt very comfortable because of trading that went on in the stock, that he had ample security for the loan. Because so oftentimes, possibly, trading in the stock would be above-book. It was not guaranteed, but that was what was happening.

So he said, in effect, put up all your stock, and that is sufficient collateral.

Senator BROWN. Does that mean that when you acquired the stock for book value, that you acquired it for less than its true value?

Mr. CLIFFORD. No, there is no way that one can determine that. I can only say that the bylaws provided that it shall be offered to the shareholders at book, and there might be trading, I don't remember now. There could be trading at book or less than book or more than book. We didn't know what the price was, because the trading was very sporadic, and did not, at any time, set a price.

Senator BROWN. What were the terms of the financing that you received?

Mr. CLIFFORD. The basic terms—and I'll see if Mr. Altman has something to add to this—I think that the term of the loan was possibly 18 months. We were to pay LIBOR rate, which is to some extent, comparable to our prime rate. And we said that we wanted the loan to be a nonrecourse loan.

Now, that developed in conversations with our New York lawyers. They strongly recommended that. And the reason they recommended it was because in 1986, when we were engaging in this desire to own some stock, I was 80 then. And the recommendation was that we—see, if we couldn't get a nonrecourse loan, it would be awfully important. Because my expectancy was limited, and if I should die, and I left a note of that kind in my estate, it could be enormously upsetting from the standpoint of working out arrangements with IRS and so forth.

So they said that in the light of the fact that if you are getting a stock at book, I think you ought to insist on getting a nonrecourse loan. It was to prevent difficulty, really—to a great extent because of my age.

Senator BROWN. When you say nonrecourse, that means that you do not have to pay it back if you choose not to?

Mr. CLIFFORD. That means that the lender is looking to the collateral for his protection.

Senator BROWN. Well, let me try it again. That means that you have no personal liability on the loan.

Mr. CLIFFORD. I would have no personal liability on the loan, because they felt that the collateral was sufficient to protect them.

Mr. ALTMAN. Other, of course, than interest that is paid.

What it means is, if you default on the loan, the lender must look to the collateral, and cannot go to your other personal assets. It must look to the assets which you and the lender have agreed upon will be the assets to secure the loan.

Senator BROWN. So if the value of the stock went up, you could enjoy the value of that stock. If the value of that stock went down, you would have no liability?

Mr. ALTMAN. Assuming we did not repay the loan—it would be a situation that banks are facing today, when a bank makes a real estate loan on a building to a developer, and the developer can't repay the loan and the value of the building has declined substantially and the bank forecloses on the building, and originally the bank had gotten an appraisal that said the building was worth \$20 million and today it's worth \$10 million, the bank takes a \$10 million loss, that is the risk.

Senator BROWN. I understand. I think we have come to learn a lot about that. The interest rate here, you mentioned, was similar to the U.S. prime, but does it not normally run something somewhat less than prime—than the U.S. prime?

Mr. CLIFFORD. I don't know. Ordinarily, I know, from time to time LIBOR will run less than prime.

Senator BROWN. Is it not usually 1 to 2 percent below prime—below U.S. prime?

Mr. CLIFFORD. I think I would not be able to accept that as a rule. It could from time to time. I have seen instances in which LIBOR and prime were the same.

Senator BROWN. How much of the price of the stock was financed—what percent was covered?

Mr. CLIFFORD. The total cost of the stock. That first purchase of stock of mine was at \$9 million and some-odd, and the loan was in the exact amount of the purchase of the stock.

Senator BROWN. So it was a 100-percent loan?

Mr. CLIFFORD. 100-percent loan.

Senator BROWN. Nonrecourse?

Mr. CLIFFORD. Nonrecourse.

Senator BROWN. At a rate that appears to be below prime for the United States?

Mr. CLIFFORD. It might have been at the time, but see, LIBOR varies. It's not a fixed rate. It fluctuates, and so I don't know how it compared at the time.

Senator BROWN. At this time the United States, of course, restricts loans on stock. My recollection is, at this time it may have been in the neighborhood of 50 percent was the most you could borrow on the value of the stock, but that is for publicly traded stocks. I take it the reason that this did not apply was because it was privately held and because it was a foreign loan?

The reason you were able to borrow more than 50 percent of the value of the stock was because it was from an overseas source?

Mr. ALTMAN. I don't believe those margin requirements were applicable to this transaction.

Senator BROWN. And the reason they are not applicable is because it was a foreign source or because it wasn't traded—publicly traded?

Mr. ALTMAN. I don't recall. I think both of those reasons are applicable.

Senator BROWN. Did First American make loans to individuals secured by stocks of 100 percent during this period of time? Did you all loan money to anyone under terms this attractive?

Mr. CLIFFORD. I'm not aware of the terms of any specific loan. First American made thousands of loans, much of it secured by stock. Some of it secured, of course, by real estate, with which we're all so familiar. The terms of the loan were based upon the relationship that existed between the parties at the time. We waited for 4 years before we had proved what we could do with the property. The shareholders were exceedingly pleased. Kamal Ahdam was enthusiastic about the results. Abedi was pleased because he had recommended the stock to the investors, so that the negotiations for the loan were conducted under very friendly circumstances.

They wanted us to own some stock. They wanted that additional bond. They wanted us to continue on as managers of the property, hopefully being as successful in the future as we had been in the past, and that's the climate within which the agreements were reached.

Senator BROWN. Did First American loan money to any one of their thousands of loans on this favorable terms?

Mr. CLIFFORD. I do not know.

Senator BROWN. Were these better terms than anybody who borrowed from your bank got?

Mr. CLIFFORD. I don't know that I can give a total answer to that. I'm sure it was better terms than the majority of the loans would be.

Senator BROWN. Do you know of any loans that were this favorable that your bank made?

Mr. ALTMAN. I think the reason that we have some hesitation, Senator, is that neither Mr. Clifford or I were in the practice of reviewing loans. We had professional banker's and credit committees, and they handle loans and there are thousands and thousands of loans that were made over the 10 years. I would not be aware of any loan that would be on these terms, but we are reluctant to make categorical statements when we're unsure of the complete accuracy of them. But we're not aware of it.

Senator BROWN. The amount of money involved here was what, in the neighborhood of \$15 million?

Mr. ALTMAN. Yes, sir.

Mr. CLIFFORD. The total was. Yes.

Senator BROWN. The total was for—

Mr. ALTMAN. For two loans.

Senator BROWN. My understanding was that in most banks, the board of directors and management has to sign off on significant—on large loans. Did that not happen with First American?

Mr. ALTMAN. It depends on the size of the loan. Different banks have different lending procedures, and different lending authorities, but certainly you'll recall in Mr. Clifford's case, he did not sit on any of the bank boards. Mr. Clifford sat on the holding company boards and credit decisions do not come to the holding company. I sat on some of the subsidiary bank boards, but I was not a partici-

pant in the credit committees. Some loans such as, for example, in New York of a certain magnitude where I was a director did come to the board. So I'm familiar with some loans, but not the general practice at all these banks.

Senator BROWN. Mr. Altman, were your loans at the same terms and conditions that Secretary Clifford's loans were at?

Mr. ALTMAN. They're identical, but 50 percent of the size, same terms.

Senator BROWN. Secretary Clifford indicated that the reason or one of the reasons for the terms of his loan was because of estate planning. Would that have applied to you as well?

Mr. ALTMAN. Well, obviously Mr. Clifford hopefully has a lesser expectancy than I, being 40 years older.

Senator BROWN. I serve with Strom Thurmond on the Judiciary Committee—

Mr. ALTMAN. But to clarify it, if I might, there is a factor here which is equally applicable to both of us. It is just a more pressing problem in the event of estate issues. The problem that you have here is the liquidity of the investment.

You asked about what was the value at the time we bought the stock. We bought the stock at book value. We don't know what the value was if you went to sell it. It depends on whether or not you had a buyer available at the time, and there were clearly a very limited number of potential buyers. Recall that he and I were just purchasing very small percentages of the stock and so, our ability to resell that stock was something that we could not be assured of, and our counsel was very insistent that we not borrow large sums of money secured by collateral, when we were not assured of the liquidity of that collateral. And, therefore, they felt that if we could not get a nonrecourse loan, it was preferable not to make the investment. They felt very strongly that this was to be a nonrecourse loan, and when we were originally in negotiations with BAI, they took the same position that it had to nonrecourse financing.

Senator BROWN. The lender did?

Senator KERRY. Mr. Secretary, I just noticed that your wife departed for a moment, but I know that chair is somewhat uncomfortable. I would be happy to make one of these other chairs available, if that is better.

Mr. CLIFFORD. Oh, how thoughtful of you, that would be great. Thank you very much.

Senator KERRY. If we could have somebody just bring one of those down or something.

Mr. CLIFFORD. I'm much obliged to you.

Senator BROWN. The loan negotiations with BAI appears to be a loan negotiation with a bank that was, in effect, an affiliate of BCCI and had similar shareholders. Were you aware of this at this time?

Mr. ALTMAN. I don't believe that's accurate, Senator. At least that's not my understanding.

Senator BROWN. You are not aware of a relationship between BAI and BCCI?

Mr. ALTMAN. I'm aware of a relationship. I know that—I believe he's the former president, perhaps he's still the president of BAI—

served on the board of BCCI, but they were unaffiliated institutions. Other than this director interlock, they were unaffiliated institutions. BAII was a consortium bank, owned by a group of 30 banks or something around the world, I think. I'm not completely familiar with that and so I don't want to suggest to you that I am, but I don't believe that they were considered corporate affiliates.

Mr. CLIFFORD. When, Senator—when the original deal was made, in round numbers the investors put up \$200 million and of that, \$50 million was borrowed on our part from this BAII bank, and that's why we thought of them first, because they'd been in it originally. That loan now is down to about \$10 million. Through the years we've been paying off on it.

Senator BROWN. Were the payments called for in your promissory notes made on time?

Mr. ALTMAN. Actually, made early.

Senator BROWN. So you paid the loans off before they were due?

Mr. ALTMAN. Well, I don't want to generalize. I should be specific. The original loan was made in the summer of 1986 and interest and principal was due, I believe, 18 months later. I could look at the documents for it to be specific. In the summer of 1987, there was a rights offering and there was a desire on our part to participate in that rights offering, and we again sought financing from BCCI—Mr. Clifford in the amount of approximately \$2 million; and I sought approximately \$1 million of additional financing.

At that time, as a condition to getting the second loan, even though the interest on our first loan was not yet due, Mr. Clifford and I sent interest checks to BCCI for something over \$1 million. So that was before the documents would require us to make payment, but it was a condition if we wanted to secure additional financing.

Senator BROWN. But on these original loans, they were due on January 1, 1988, were they not?

Mr. ALTMAN. In January.

Mr. CLIFFORD. Yeah.

Mr. ALTMAN. I don't remember what date.

Senator BROWN. And were they paid off at that point?

Mr. ALTMAN. No. They were—at that time, the loans provided that if they came due and we had not paid them off or sold any portion of our stock, then we could seek refinancing, or ask BCCI to roll them over, and we asked BCCI to consider rolling them over. This was in December, but before we completed that arrangement, Mr. Clifford and I decided that it would be preferable to try to dispose of some portion of our holdings, and so, in February, Mr. Clifford started the process to sell a portion of the stock and the principal and all the accrued interest was then paid in March.

Senator BROWN. And that was February 1988?

Mr. ALTMAN. Yes, sir. That was the—approximately 30 days later, whatever the exact due date was.

Senator BROWN. So at least for a period of time, these loans were in default?

Mr. ALTMAN. Well, they were not actually in default because we had gone to the lender, we had asked the lender if they would refinance the loan or roll it over. The lender indicated a willingness to do that, but before the documents were prepared for a second loan,

we started the process of disposition of the shares which made papering that unnecessary, and when we paid the loan, even though the second loan had not been documented, we paid all interest accrued to date.

Senator BROWN. So while they might have been technically on paper in default, you had had a verbal agreement to handle it.

Mr. CLIFFORD. Which was consistent, Senator, with the original understanding that they would extend it at our request.

Mr. ALTMAN. As set forth in the documents.

Senator BROWN. The Internal Revenue Code provides for interest that is charged in a below market rate fashion to be reported as income. I think the Treasury publishes the rate at which they make that comparison monthly. It appears that the interest rate you were charged was below that rate. Did you report as income in 1987 and 1988 the below market rate interest that you were charged?

Mr. CLIFFORD. I do not know that it was below the rate, Senator. There was no reporting on our part. As I said, the LIBOR rate is a flexible rate. The loan was made under LIBOR and the bank set the rate. We did not set the rate. The bank set the rate. We accepted the rate that the bank set at LIBOR and paid it.

Mr. ALTMAN. I'm not sure that I would agree with your assumption, Senator, or your interpretation of the code, if I might say so.

Senator BROWN. Your feeling is that the code does not require recognition as income for below market rate loans?

Mr. ALTMAN. What I am suggesting here is, this loan transaction was one in which we negotiated with BCCI and they advised us of the rate that would be applicable to the borrowing. I have never heard of a case where the IRS has taken the position that a loan obtained from a financial institution at a rate set by the financial institution is the kind of imputed interest that you're suggesting would apply. I think that generally is the kind of situation where a father gives a son a loan for nothing, with no interest rate and it's in effect a gift to the child of the additional amount that is the interest that is not required. But I've never heard of a case such as you're suggesting, where when a bank sets an interest rate, that's regarded as imputed interest—some differential to the borrower.

Senator BROWN. Could you supply, for the record—obviously, if you knew it off the top of your head that would be fine, but if you would be willing to supply for the record, the interest rate that you paid on this amount?

Mr. ALTMAN. Sure.

Mr. CLIFFORD. Sure.

Senator BROWN. Would you recap for us the sale of this stock? What price was it sold for?

Mr. CLIFFORD. \$6,800 per share.

Senator BROWN. And was that the book value at the time?

Mr. CLIFFORD. Oh, no. No. See, there were two areas of pricing of the stock. One was book and that is based, as you know, upon the excess of assets over liabilities of that particular company, as of a particular time. That's called the book value. So that the stock that would be taken up by the shareholders, when it was offered, was always offered at book. We did that not only with this circumstances, but whenever any of the member banks gave rights offer-

ings, it was always at book. That was the custom within First American. Now—so the book, you could check on at any particular time and find out exactly what the book value was. And just to also let you know the progress of the bank, when we bought our stock in 1986, book value was \$2,216. By the end of 1988 or 1989, it had gotten up very close to \$3,000. That's how much progress the bank was making, but that book was steadily going up. But during that period, there was other trading at a different level that was not concerned with book. If an individual felt that First American was a very attractive buy, he might choose to pay whatever a willing seller and a willing buyer agreed upon.

Senator BROWN. So you were able to buy it book, but when you sold, you sold on the—it wasn't an over-the-counter market, but in such market as did exist, I would guess.

Mr. CLIFFORD. That's right and that happened in a number of instances. We had heard at some time that there were sales at \$4,000. On other occasions, we'd heard there were sales of the stock at \$5,000, and more interesting to you, there had been a substantial transaction, Senator. Prior to our sale there had been a substantial transaction at \$6,100 a share. That's when the Bin-Mahfuz family of Saudi Arabia decided that they wished to start taking a substantial position in First American. First American was considered to be a very attractive, dynamic, coming stock and that particularly led to those prices.

Senator BROWN. I take it, book value continued to increase in 1988 and 1989?

Mr. CLIFFORD. Yeah. It increased each year during the 1980's.

Senator BROWN. Do you recall how much—what your gain was on this particular sale? You did not sell all your stock, but a portion of your stock—the stock you did sell?

Mr. CLIFFORD. Only about 60 percent of it.

Mr. ALTMAN. We have attached to our written submission, Senator, attachment (I), all of the numbers for the record as to amounts received and disbursed and taxes and the rest, so you would have that available to you.

Senator BROWN. Let me just say for the record that the full text of your statement will be placed in the record, with your opening comments that you made, at the appropriate place in the record and the exhibits will be included here.

[The information referred to follows:]

**ATTACHMENTS TO STATEMENT OF CLARK M. CLIFFORD AND
ROBERT A. ALTMAN BEFORE THE
SUBCOMMITTEE ON
TERRORISM, NARCOTICS, AND INTERNATIONAL OPERATIONS,
COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE**

October 24, 1991

INDEX OF ATTACHMENTS

- A. Sharon Walsh, First American Trust Mired In Questions Over Ownership, Washington Post, Oct. 15, 1991, at D1.

Nicholas Bray & Peter Truell, Judge Halts a Liquidation of BCCI's U.K. Operations, Wall St. J., July 23, 1991, at A17.

James R. Kraus, Regulators at Odds over BCCI Stake in D.C. Bank, Amer. Banker, July 12, 1991, at 1.

- B. Letter from Alan R. Cohen, Acting Superintendent, State of New York, Banking Department, to Benjamin S. Rosenthal, Chairman, Commerce, Consumer & Monetary Affairs Subcommittee, House of Representatives (Oct. 12, 1982).
- C. Foreign Government and Foreign Investor Control of U.S. Banks: Hearing Before a Subcommittee of the Committee on Government Operations, House of Representatives, 97th Cong., 2nd Sess. (Sept. 30, 1982) (statement of Henry C. Wallich, Member, Federal Reserve Board).
- D. Letter from Gerald Lewis, Comptroller of Florida, Department of Banking and Finance, to Agha Hasan Abedi, Director and President, Bank of Credit and Commerce International (Dec. 18, 1985).
- E. Letter from J.P.G. Wathen, Vice-Chairman, Barclays Bank Limited, to Robert A. Altman (April 22, 1981); letter from R. Misery, Deputy Manager, and P. Hagen, Manager of Banque De L'Indochine et de Suez, to Robert A. Altman (April 21, 1981); letter from United Overseas Bank to Robert A. Altman (April 21, 1981); letter from S.M. Shukri, Managing Director & Chief Executive, Allied Arab Bank Limited, to Robert A. Altman (April 22, 1981); letter from Stephen P. Munn, President, Carrier, to Robert A. Altman (Aug. 24, 1981); letter from Guy Ogee, Deputy Manager for the Middle East, Thomson-CSF, to Robert A. Altman

(Aug. 25, 1981); letter from G. Bechaalany, Vice President, Seven-Up S.A., to Robert A. Altman (Aug. 26, 1981); letter from Jean Bonnard and Dr. U. Sigg, Schindler Management Ltd., to Robert A. Altman (Sept. 3, 1981); letter from Abdul Kader AlSeesi, General Manager, Alahli Bank of Kuwait, to whom it may concern (April 16, 1981); and letter from Ahmed Al-Mishari, Chairman, Managing Director, Kuwait Airways, to whom it may concern (Oct. 19, 1981).

- F. Proxy signed by Ghanim Al-Mazrui, acting on behalf of H.H. Sheikh Zayed Bin Sultan Al Nahyan (Dec. 26, 1990); proxy signed by Ghanim Al-Mazrui, acting on behalf of H.H. Sheikh Khalifa Bin Zayed Al Nahyan (Dec. 26, 1990); proxy signed by Mohammed Habroush, Managing Director of Abu Dhabi Investment Authority (Dec. 27, 1990); proxy signed by H.E. Sheikh Kamal I. Adham (Dec. 20, 1990); proxy for Adham Corporation (Dec. 20, 1990); proxy signed by Sayed Jawhary (Dec. 20, 1990); proxy signed by H.E. Ali Mohammad Shorafa (Dec. 16, 1990); proxy signed by Faisal Saud al Fulaij (Dec. 20, 1990); proxy signed by Eugene Muller and Bob Bernard on behalf of Mashriq Holding Company (Dec. 21, 1990); proxy signed by Clark M. Clifford (Dec. 21, 1990); proxy signed by Robert A. Altman (Dec. 21, 1990); proxy signed by Sheikh Humaid Bin Rashid Al Naomi (July 10, 1984); proxy signed by Abdul Raouf Khalil (July 10, 1984); proxy signed by Mohammed Habroush, Managing Director of Abu Dhabi Investment Authority (July 12, 1984); proxy signed by Ali Mohammad Shorafa (July 12, 1984); proxy signed by El Sayed El Gohari (July 10, 1984); and proxy signed by Sheikh Khalifa Bin Zaid Al Nayhan (July 12, 1984).
- G. Credit and Commerce American Holdings, N.V., Offering Memorandum (June 9, 1989).
- H. Letter from Swaleh Naqvi, President, Bank of Credit and Commerce International, to Robert A. Altman (Aug. 23, 1983).
- I. Chart entitled, "Clifford and Altman Stock Transaction."

THE WASHINGTON POST
Oct. 15, 1991 Page D1

First American Trust Mired In Questions Over Ownership

Impasse Is Delaying Attempts to Sell Bank

By Sharon Walsh
Washington Post Staff Writer

Kamal Adham says that he, and he alone, is the owner of about 13 percent of the shares of First American Bankshares Inc.'s parent company. But the Federal Reserve Board says that Adham, a Middle Eastern businessman with ties to the Saudi royal family, is one of six sham stockholders who acted as fronts for the Bank of Credit and Commerce International.

Other alleged BCCI stand-ins have taken the same position as Adham. Together, they hold more than 50 percent of the stock in First American, leaving the Fed and First American officials in a legal and practical quandary over how to establish a clear separation between the bank and BCCI.

Without some agreement from the majority of the shareholders, the officials say, they cannot follow through on their announced intention to set up an independent trust to hold the disputed shares of the bank.

The impasse has put on hold moves to sell the bank and left its management unable to say unequivocally that BCCI is not a powerful shareholder.

"The trust is important to the bank because it would provide a public assurance that there isn't any improper influence," said Nicholas deB. Katzenbach, chairman of the bank. "I wish to God it had happened before now . . . but I don't control the process."

Since March, when the Fed ordered BCCI to sell any shares that it had acquired illegally in First American, federal regulators and others have worked to establish such a trust.

The government of Abu Dhabi, one of the United Arab Emirates, has agreed to put its 28 percent stake into the trust, but no other shareholder has made a commitment.

In August, after Clark M. Clifford and Robert A. Altman resigned their positions as chairman and president of the bank, the negotiations to establish a trust became more fevered as pressure increased from the Fed and from the Abu Dhabi government.

The parties involved in the trust negotiations agreed to be interviewed on condition that they not be identified.

The Abu Dhabi shareholders, at first reluctant to be part of a trust, now realize that they would have to wait five years or more for the turnaround of the real estate market to earn a significant return on their investment in the bank and are eager for a trust so that their stock can be sold.

The Fed, worried about the condition of the bank, wants the bank sold and out of the shadow of BCCI as quickly as possible.

The trust in some ways has become a political football among the various parties, which now include representatives of First American and the court-appointed liquidators assigned to handle BCCI's assets after regulators seized the giant bank in July.

What some thought could be accomplished quickly has dragged on for months. The parties agree that a trust is in everyone's interest—except perhaps the nominees, who, the Fed says, bought the shares on behalf of BCCI—but no one can agree on a methodology.

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Oct. 15, 1991 Page D1
Cont. to Page D4

"It's become a spitting contest that has got to come to a head soon," said one participant.

The proposed trust agreement
See TRUST, D4, Col. 1
TRUST, From D1

has been revised so many times and so often that even the lawyers involved can't keep track. One attorney headed for a meeting with other participants and found that by the time he arrived for the meeting, his copy of the agreement was already out of date.

Among the main provisions of a previous draft of the trust agreement, a copy of which was reviewed by The Washington Post:

■ First, the board of First American's parent company, Credit and Commerce American Holdings N.V., a Netherlands Antilles corporation, would transfer ownership of its wholly owned subsidiary—Credit and Commerce American Investments, a Netherlands corporation—to the trust. The trust then would have clear title to CCAI, even if the ownership of CCAH might still be in question.

Some participants are debating whether the board of CCAH—which is composed of several of First American's top executives—can transfer the title without the agreement of the individual shareholders of CCAH.

The recently elected board of CCAH—since the resignation of Clifford and Altman—consists of Katzenbach; the bank's chief executive officer, Jack W. Beddow; its chief operating officer, Paul Adams; and First American Bankshares board member Charles McC. Mathias, a former senator.

■ A trustee would be named to help hire an investment banker to sell the CCAH shares.

■ The trustee would direct the board of First American to take the necessary steps to sell the bank within one year of the signing of a trust agreement.

This is another point of contention: Who would be in charge of selling the bank—Katzenbach or the trustee?

And, will the nominee shareholders have any say in when and for what price the shares are sold?

■ The trustee would deposit the proceeds of any sale into a trust account.

That's when an even bigger battle may begin as "real" and "nominee" shareholders begin suing each other over who gets the money. Under Netherlands Antilles laws, where the stock is registered, the shareholders of record have certain legal rights.

The process of establishing a trust, sources said, cannot wait several years to see whether the criminal justice system is able to prove who the true owners are.

Meanwhile, can the Fed, or anyone else, force the so-called nominees to put their shares in a trust?

Plato Cacharis, an attorney for Adham, isn't saying whether Adham will put his shares in the trust.

"We haven't done anything," Cacharis said. "My position is that they are his shares. He purchased them for himself and would like some comfort on how the stock is to be sold. If it's sold at a distress sale, he'll take a beating."

There also is the question of who would serve as trustee.

The various parties at first wanted an individual trustee, but decided that it would be better to appoint an institutional trustee. The investment bank J.P. Morgan & Co. of New York was approached about the post but declined, sources said.

The job may not be that attractive. For a moderate fee, it will mean a lot of headaches.

Once the trust agrees to sell the stock, there are bound to be numerous lawsuits over who gets the money, and the trustee—who will hold the money until the fights are over—is likely to be named in the suits.

But to name a trustee, there first must be a trust.

And for that, said one source: "The Kamal Adhams of the world and the BCCIs are going to have to agree."

Judge Halts a Liquidation Of BCCI's U.K. Operations

Sham Accounts, Secret Role Of First American Bank Are Alleged at Hearing

By NICHOLAS BRAY
And PETER TRUILL

Staff Reporters of THE WALL STREET JOURNAL

LONDON—A British judge temporarily froze the government's plan to liquidate local operations of Bank of Credit & Commerce International S.A., in a move to give the bank's Abu Dhabi shareholders time to consider a rescue plan.

Addressing a courtroom packed with lawyers, journalists and BCCI employees and depositors, Sir Nicolas Browne-Wilkinson adjourned for eight days the Bank of England's request for authority to wind up the British and related operations of the scandal-stricken bank, which was seized by a global band of regulators July 5.

The government, seeking approval for immediate liquidation, depicted BCCI as a textbook case of financial fraud and mismanagement. In this connection the government presented evidence suggesting that BCCI used First American Bankshares Inc.—the biggest bank holding company in Washington, which BCCI secretly owned for several years—as a source of secret funds for perpetuating a world-wide banking scam.

But during the hearing, lawyers for BCCI's controlling shareholder, Sheikh Zayed al-Nahyan, the ruler of Abu Dhabi, said his client was still willing to consider a plan to bail out the bank with another capital infusion. "The possibility of a viable alternative to liquidation is a real one," said David Johnson, attorney for Sheikh Zayed.

The court action in England comes as the scope of the apparent fraud becomes even wider at BCCI, whose principal operating company is BCCI Holdings (Luxembourg) S.A.

In a letter to the European edition of this newspaper, lawyers for Sheikh Mohamed bin Rashid al-Maktoum of Dubai said he "never borrowed" \$121 million from BCCI, as the auditing firm of Price Waterhouse found in a 1990 review and as this newspaper reported earlier this month. Another big borrower identified by Price Waterhouse in the 1990 audit, the al-Ibrahim family of Saudi Arabia, also denied receiving funds from BCCI, according to the Independent, a London newspaper. "Neither of these loans ever existed, but were simply credited against the names to disguise BCCI's losses," the newspaper said.

If true, these assertions mean that loans to nonexistent borrowers were fabricated in BCCI's records. Doing so could help mask the huge, undocumented movements of deposits out of the bank that auditors have also discovered.

Prime Minister John Major wouldn't comment on allegations in the media that BCCI had been used by terrorist organizations, including the Abu Nidal group, to fund arms purchases and other operations. Instead, he said, an inquiry into the BCCI affair will be headed up by Lord Justice Bingham, a prominent appeals court judge, who will have access to all relevant papers, officials and government ministers.

Some U.S. officials involved in counterterrorism expressed irritation that British officials hadn't informed the U.S. officials of suspicions that alleged terrorists banked at BCCI.

The Bank of England said it was disappointed by the court action. The immediate winding-up order, as requested by the government, would have unleashed partial compensation for U.K. depositors who have lost money with the bank, equivalent to 75% of deposits to as much as a maximum reimbursement of \$15,000 (\$25,389).

BCCI's total liabilities in Britain amount to the equivalent of \$3.25 billion, according to Touche Ross & Co., the provisional liquidators of BCCI. The bank has about 40,000 depositors in the U.K., of which 36,800 have less than \$1,000 on deposit. Sir Nicolas made it clear that any delay in the liquidation beyond eight days would be considered only in conjunction with measures to assist small depositors.

The call for a delay—supported by a number of major depositors and by representatives of BCCI employees—was given extra force by Touche Ross itself, whose officials have discussed possible alternatives to liquidation with regulators in Luxembourg.

Speaking for the British central bank, lawyer Gabriel Moss advanced numerous reasons why it was "just and equitable in the public interest to wind up BCCI."

He traced the fraud at BCCI to the bank's mountain of bad and doubtful debts and to trading losses that totaled about \$849 million from 1977 to 1985. To cover bad debts, he said, BCCI channeled funds into a separate, unnamed unit that then repaid third-party bank borrowings, concealing the extent of BCCI's exposure.

Mr. Moss outlined the alleged artifice using code names that auditors have attached to various BCCI operations. BCCI used funds from a company he called

"Fork," which others identified as a Cayman Islands-based company with a purportedly charitable status. BCCI, he also said, took in unrecorded deposits totaling about \$600 million, \$356 million from a depositor he identified as "Tumbleweed."

The fraud only spiraled, the government lawyer said. "The solutions to the initial problems had to be solved using the same deception, but on an ever-increasing scale," he told the court.

"Unrecorded deposits and fictitious loans had to be repaid and funds under Fork's management had to be replaced," he added. "To do that, further unrecorded deposits, fictitious loans and funds under Fork's management had to be used."

Mr. Moss discussed the role of one BCCI unit, which he identified as "WXYZ," in particularly strong terms. Individuals familiar with the case identified WXYZ as First American, in which BCCI acquired a controlling stake through covert share purchases in the early 1980s.

In addition to its previously reported role in financing First American's share capital, BCCI used First American shares as security for loans to individuals acting in BCCI's behalf for releasing funds to adjust nonperforming loan accounts, to cover up unauthorized loans and to generate fictitious income, Mr. Moss said.

All told, the Bank of England submission asserted "the BCCI group made significant losses over the last decade and may never have been profitable in its entire history."

Responding to these allegations, Mr. Johnson affirmed on behalf of BCCI's Abu Dhabi shareholders that measures had already been taken, in the context of a restructuring plan, to contain and isolate the fraud. Abu Dhabi is one of the United Arab Emirates.

The Bank of England had made no definite assertion that fraud was continuing within BCCI, and it had made clear that it considered the Abu Dhabi authorities to be innocent of any participation in the fraud, he added.

Regulators At Odds over BCCI Stake In D.C. Bank

By JAMES R. KRAUS

NEW YORK — Regulators in the United States and Luxembourg are at odds over who controls the Bank of Credit and Commerce International's stake in First American Bankshares.

The question has put in limbo the Federal Reserve's plan to sell BCCI's illegal holdings in First American, an \$11 billion-asset company based in Washington and run by Clark Clifford, a former presidential adviser.

Citing evidence of widespread fraud, regulators last Friday closed BCCI offices in eight nations, including Luxembourg, where the \$20 billion-asset company has its headquarters.

Regulators Queried

Fed officials are maintaining that regulators in Luxembourg now control BCCI's stake in First American. "We have asked the Luxembourg authorities for instructions," a senior Fed official said Thursday.

But the ranking regulator in

Regulators at Odds over BCCI Stake

Continued from page 1

Luxembourg said Thursday that his country does not have a say in the disposal of the shares. "It's a U.S. [legal] problem," Pierre Jaans, director of the Luxembourg Monetary Institute, said in a telephone interview. "I am not even theoretically sure who holds that stake."

BCCI evidently owned First American shares through a secret relationship with Credit and Commerce American Holdings, a holding company based in the Netherlands Antilles, a Dutch dependency in the Caribbean. According to the Fed, BCCI illicitly acquired a stake of more than 25% — the exact amount is not clear — in First American.

Off the Books

From a purely legal standpoint, Mr. Jaans said, the stake was never entered on the books of BCCI or its parent, BCC Holdings, and therefore does not automatically come under the control of Luxembourg's regulators.

However, Mr. Jaans did not rule out the possibility that the stake might end up under his control once the investigation into BCCI's activities is completed.

Both the Fed official and a member of the law firm hired to sell the BCCI stake appeared flabbergasted by the Luxem-

bourg regulator's position on First American.

"Of course BCCI never listed shares of First American on their balance sheet," the senior Fed official said. "The whole thing was concealed from the start."

Receiver's Role

BCCI agreed in March to sell its stake in First American. "From a U.S. legal standpoint, it's quite clear to me that a Luxembourg receiver would be compelled to live up to lawfully authorized contractual obligations" entered into by BCCI, said Sandy Martin, a partner with the Washington law firm of Patton, Bogg & Blow, which is representing BCCI.

On Friday — the day the assets were seized — Fed officials and lawyers from Patton, Bogg & Blow were finalizing plans under which the BCCI stake would have been turned over to a Fed-appointed trustee.

The trustee was to have taken control of the shares with authority to sell them off to a Fed-approved purchaser. He would also have had the authority to replace First American's current management.

"The plan has gone into abeyance," the Fed official said.

Also at issue is BCCI's majority stake in Independence Bank, a \$640 million-asset institution based in Encino, Calif. □



STATE OF NEW YORK
BANKING DEPARTMENT
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NEW YORK, N.Y. 10047

ALAN R. CONWAY
ACTING SUPERINTENDENT

October 12, 1982

Honorable Benjamin S. Rosenthal
Chairman
Commerce, Consumer & Monetary
Affairs Subcommittee
House of Representatives
Rayburn House Office Building
Room B-377
Washington, D. C. 20515

CONGRESSMAN BEN ROSENTHAL RECEIVED	
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Dear Congressman Rosenthal:

At the public hearing held by your committee on September 30, you requested that the New York State Banking Department supply you with information concerning the investigation of the investors who applied for permission to acquire control of First American Bankshares, Inc. (First American), formerly known as Financial General Bankshares, Inc.

A review of our records indicates that we made a thorough investigation and that we obtained sufficient information to determine that the investors' character and financial responsibility warranted approval of the application.

The investors had to comply with the stringent information requirements of the Banking Department's Supervisory Procedure CS 117 (copy attached) which provides for an extensive probe into the financial and personal affairs of individual applicants. Among the data required under CS 117 are curricula vitae, employment histories, disclosures of previous or pending civil or criminal proceedings, banking relationships, descriptions of the sources of funds for the proposed investment, details of applicants' businesses, three-year financial statements, explanations of the accounting principles used in their preparation and a description of the qualifications of the accountants who prepared them.

The material submitted under CB 117 was further supplemented by a long list of additional information which we subsequently requested and obtained from applicants. This included interim financial statements, additional bank and non-bank references, further details on their business connections, elaboration of significant items on their financial statements, and background data on the home countries of the applicants.

We also worked closely with the staff of the Federal Reserve Board, who were investigating the same investors, and exchanged information with them continually. They, of course, had at their disposal the vast investigative resources of the federal government. Through them we established contacts at the U. S. State Department and the U. S. Department of Commerce from whom we obtained valuable information about the investors and about their home countries.

Finally, we utilized the resources of multinational banks in New York City, in particular Morgan Guaranty Trust Company, Manufacturers Hanover Trust Company, Irving Trust Company and Citibank. Middle East specialists at these banks knew the major investors, were able to confirm the accuracy of much of the information we have received, and were able to supply us with additional information as well.

From none of the foregoing sources of information did we ever receive any derogatory information about any of the investors. On the contrary, all the information we received indicated that the investors were prestigious and reputable people.

Finally, it should be noted that this application received more scrutiny from more regulatory agencies than any other in recent memory. Over a period of four years, the application was scrutinized by the Federal Reserve Board, the Comptroller of the Currency, the Securities and Exchange Commission, and the banking authorities of the states of Maryland, Virginia and Tennessee as well as New York. None of the regulatory agencies involved found anything derogatory about any of the investors, nor did the former top management of Financial General, who fought the takeover for almost three years.

To reiterate, our investigation was thorough and explored all available sources of information. Our conclusions were consistent with all the standards and criteria set forth in the New York Banking Law.

I want to thank you for this opportunity to set the record straight on this matter.

Yours truly,



Encl.

**FOREIGN GOVERNMENT AND FOREIGN INVESTOR
CONTROL OF U.S. BANKS**

HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS
SECOND SESSION

SEPTEMBER 30, 1982

Printed for the use of the Committee on Government Operations



Mr. ROSENTHAL. All right, Mr. Daub.
Mr. Wallich, we are very anxious to hear from you.

**STATEMENT OF HENRY C. WALLICH. MEMBER. FEDERAL
RESERVE BOARD**

Mr. WALLICH. Mr. Chairman, I understand that you would like me to summarize some parts of my statement.

Mr. ROSENTHAL. Yes. Without objection, a copy of your entire prepared statement will be inserted in the record.

Mr. WALLICH. I will begin by saying that this is the third time I have been privileged to appear before your subcommittee. There were large acquisitions at the time when I appeared previously. The interest of foreign countries in U.S. banks has continued, although on a lesser scale recently. At the present time we have a situation where 134 banks are controlled by foreign banking organizations and foreign investors.

The performance of these foreign banking organizations has been studied very carefully on a quantitative scale. The principal findings are easy to summarize because, just as Mr. Kohn said, the differences between domestically run and foreign run institutions after they become foreign owned are small.

What we have found is that banks that became foreign owned typically before their acquisition had lower earnings and lower equity ratios than their peer group. In other words that was the type of bank that was being bought. Following acquisitions, earnings generally improved, although not up to peer levels. Equity levels were raised to peer levels as a result of infusions of capital. The business orientation of the acquired banks did not change materially. There was somewhat less emphasis on retail lending as a proportion of total, reflecting a greater diversification of the lending portfolio.

Within the whole group of foreign-controlled banks, the greatest improvements in earnings and the largest increases in capital took place at banks that were acquired by foreign individuals. However, their earnings were low at the time they were being acquired.

I want to say a few words about supervisory experience. One can judge that from the point of view of the performance of a bank. I have cited equity ratios and earnings. There is some further evidence available from ratings that are assigned by supervisory agencies. Of the 52 banks that appeared in a given sample that was reviewed, there were 40 that had strong composite ratings for financial soundness. There was a very small proportion that was unsatisfactory. In other words, the picture is not at all bad there.

The record of compliance is more difficult to measure. Every bank in the United States has some occasional incident of a violation of law. This is easily corrected as a result of the examination process. Foreign-owned banks are no different in this regard. On the whole I think one can say that compliance in foreign banks is as good as it is in domestic banks.

I will skip the section on supervision, which describes our techniques, Mr. Chairman, with which I think you are familiar. I will go on to page 7.

Most foreign bank holding companies are foreign banking organizations, that is banks abroad. They are usually the major banks in their home countries. They are supervised by foreign banking authorities. They have recognized reputations. For these reasons, the Board has not been confronted with serious problems in supervising U.S. activities of these bank holding companies.

Mr. ROSENTHAL. Let me ask you one question. When you say they are supervised by foreign banking authorities, is that supervision of the same character and stringency as the type of supervision I would like to think we have here?

Mr. WALLICH. We are proud to think that ours is more intensive, and there is a specific difference in that ours rests on examination, typically annual, of a bank, going through their books, going through their portfolio. Few other countries do that.

It also must be recognized that we have a very large number of banks, and among those you might always find some that need this kind of attention. Foreign banking systems are much more concentrated as a rule than ours. Nevertheless, I think you can say a lot on behalf of American bank supervision.

When we are we dealing with foreign individuals, certain supervisory problems do arise. One supervisory problem relates to the initial entry of foreign investors trying to acquire or establish a bank. The other relates to the continuing operations of their banks.

On the question of entry, I might just note that the principal problem is to ascertain the financial strengths and reputation of the would-be foreign owners. This is not a unique problem internationally. It is a problem that faces the Office of the Comptroller of the Currency when foreign investors seek to charter a national bank. It is a problem encountered by all three Federal banking agencies under the Change in Bank Control Act when there is an effort of a foreign investor to acquire more than 10 percent of an existing bank and become a large, distinguished shareholder.

The relevant banking agency has to determine the investor's condition, and status and the ability to make such a determination is necessarily complicated by distance and differences in foreign conditions and standards.

On the second question of continuing supervision of foreign individuals, there is the problem of assuring that the bank is managed well and that it is not used for the benefit of the foreign owners to the detriment of the condition of the bank. Individual investors, by comparison with banking organizations, may not have the same interest in preserving the banking reputation.

The first line of defense on this point is to limit entry to persons of undoubted integrity and banking experience. On the whole, as described earlier, the banks owned by foreign individuals have been managed well and have posed few supervisory problems. However, there have been exceptions.

If I may turn to Federal Reserve procedures on applications made by foreigners seeking to acquire U.S. banking organizations, we have the Bank Holding Company Act which provides several criteria that the Board is required to consider in judging all bank holding company applications. These are, first, the financial and managerial resources of the acquiring company and the bank to be acquired; second, the future prospects of each; third, the conven-

ience and needs of the community to be served; and fourth, the effects of the proposal on competition.

Similar criteria are to be considered by the banking agencies under the Change in Bank Control Act. These criteria apply both to foreign and domestic acquisitions.

When an application is received by the Federal Reserve from foreign banking organizations or foreign individuals or foreign bank holding companies, the same general procedures are followed, and the same general information is required as if domestic organizations or domestic individuals were involved. Also, a concerted effort is made to obtain additional information that will enable an evaluation of the applying foreign banking organization to be viewed against the environment in which it operates in its home country. In the case of foreign individuals, they are required to submit financial statements and other information sufficient to assess their ability to manage a banking organization and to stand behind the acquired bank.

Contact is usually made with the appropriate foreign supervisory authority about the condition and reputation of the foreign applicant. When a foreign banking organization is involved, this procedure is in keeping with a broad agreement reached among the central banks and bank supervisory authorities of the G-10 countries and Switzerland that the foreign banks operating within their territories should be adequately supervised institutions in their home countries and that the home country supervisors should supervise the activities of their banks on a consolidated basis.

Now I come to the main acquisitions that are listed in your statement, Mr. Chairman. The three cases are, first, the Crocker National Corp. acquired by Midland Bank Ltd.; second, Financial General Bankshares acquired by a group of Middle Eastern investors; third, the acquisition of Long Island Trust Co. Bancorporation by Banca Commerciale Italiana. My remarks will be confined to the highlights of each case. More details are contained in the Board's orders approving these acquisitions, which is included in my testimony.

In early 1981, Midland Bank, one of the major London clearing banks, applied to acquire a majority interest in Crocker National Corp., whose principal subsidiary bank and principal asset is Crocker National Bank. At the time Midland had total deposits of \$55 billion and was the third largest bank in the United Kingdom. Crocker National Bank had total assets of \$19 billion and was the fourth largest bank in California and the twelfth largest in the United States.

Under the proposal, Midland Bank would immediately acquire 51 percent of the stock of Crocker National Corp. with the intention of ultimately acquiring 57 percent. The end result of the acquisition would be an infusion of \$495 million in new capital into the Crocker National Corp.

At the time of the application Midland Bank had no operating banking presence in the United States. Its only representation was as a part owner of European American Bank and Trust Co., a consortium bank in New York owned by six banks from different European countries.

Although the acquisition of a large U.S. bank was involved, there were virtually no issues presented by the application under the criteria specified in the Bank Holding Company Act. There were no adverse competitive factors in the application since Midland Bank had no direct banking operations in California or elsewhere in the United States. Midland Bank was in strong financial condition, and its reputation as an international bank was undoubted. The proposed capital infusion was regarded as a factor weighing in favor of the approval.

In approving the bank acquisition the Board had also to consider the other activities of the Midland Bank organization in the United States and their consistency with the requirements of the Bank Holding Company Act. As a result the Board order approving the bank holding company formation required that Midland divest its 20 percent interest in European American Bank on the grounds that retention would be inconsistent with the policy underlying section 3(d) of the act. Under that section bank holding companies are effectively barred from acquiring more than 5 percent of the shares of a bank in another State. The Board also denied an exemption from the prohibitions of section 4 of the act for the activities of the U.S. subsidiary of Thomas Cook Ltd. That company provides retail and wholesale travel services in the United States, an activity which the Board has found as not closely related to banking.

I next will turn to Financial General Bankshares. Financial General Bankshares is a multi-State bank holding company with 12 banks located in the District of Columbia and the States of Maryland, New York, Tennessee, and Virginia. In November 1978 the first applications to acquire this holding company were made by Credit and Commerce American Holdings of the Netherlands Antilles and Credit and Commerce American Investment of the Netherlands. The two applicant companies were formed by a group of individual investors from several Middle Eastern countries for the purpose of the acquisition. A protracted process ensued.

The proposed acquisition was at first opposed by existing management of Financial General and its subsidiary banks. Moreover, two of the State banking supervisors involved, Virginia and Tennessee, recommended denial on the grounds that the acquisition would be detrimental to the convenience and needs of the communities served. In addition the attorney general of the State of Maryland issued an opinion that Maryland State law precluded a Maryland banking institution from being subject to an unfriendly affiliation. In these circumstances, the Board dismissed the first applications on the grounds that it was prohibited from approving a proposal that would violate State law.

These complications were subsequently resolved, and a new application was filed in November 1980. While a number of technical issues remained, the principal issue for the Board then became the identity of the purchasers, their reputation and their financial strength, and what those attributes meant for the future operations of the bank holding company.

The Middle Eastern investor group consisted of 14 individuals and companies from Saudi Arabia, the United Arab Emirates, and Kuwait. The group included eight individuals, three personal holding companies, two government-owned companies, and one private

company. In the course of processing the application, a meeting was held at the Board's offices which was attended by representatives of the investor group, counsel for the applicants, and representatives of the State banking departments involved, and the Comptroller of the Currency.

The information developed at this meeting became part of the record on which the Board based its decision. In making that decision the Board took special care to review the financial resources of all the investors. The information submitted demonstrated that all the investors possessed sufficient financial resources to make the acquisition and to provide future support if needed.

The financial factors relating to the acquisition of Financial General were considered to be consistent with approval. As far as management was concerned the investors did not propose to take an active role themselves. Rather, they proposed to have all the director and top management positions filled by qualified Americans. The Board carefully reviewed the composition of the proposed board of directors of Financial General and the proposed senior management and satisfied itself about their qualifications.

The Board approved the acquisition on August 25, 1981. The transaction was consummated in April 1982, and the name of the organization was subsequently changed to First American Bankshares.

Mr. ROSENTHAL. Mr. Wallich, can you tell us just a little bit how you checked to verify the backgrounds, the character, the integrity, the financial resources of the individuals?

Mr. WALLICH. The Board worked very hard at this because, as my testimony says, this is a crucial matter. We used all the resources of the U.S. Government, not only those of the Federal Reserve Board, and we developed information from a very broad informational source.

We also, of course, obtained bank statements. We obtained the financial statements of the individuals, and these were certified by local accountants who in turn were certified by familiar named accountants of the Big Eight.

So we did what I think is humanly possible to develop detailed information on these individuals. In human affairs nothing is ever completely sure, but a credit check of this kind is of course not an unfamiliar thing. It happens all the time in business. The people involved here are businessmen. They are looked at often by the business community. So it by no means is impossible to get a full dossier on them.

Mr. ROSENTHAL. It interests me that they formed two groups, one in the Netherlands Antilles and one in the Netherlands. Did you look into that at all? Were you able to get any information from the Netherlands Antilles?

Mr. WALLICH. This is a familiar device relating to, as I understand it—and I am not a tax expert—two separate tax treaties that the United States has with the Netherlands Antilles on one side and Holland on the other.

Mr. ROSENTHAL. That is what I was coming to. These individuals, would they be able to avoid U.S. taxes that U.S. citizens would have to pay?

Mr. WALLICH. They would not be able to do anything that somebody in the situation would not be able to do.

Mr. ROSENTHAL. That is, if they use the Netherlands Antilles.

Mr. WALLICH. A U.S. citizen may not be able to do that because he is subject to a different home tax law. However, if one starts out as a foreigner, these opportunities are open. I cannot speak with authority to this, Mr. Chairman. I am not a tax lawyer. All I can tell you is that it is a familiar, frequently used technique.

Mr. ROSENTHAL. I am just curious as to whether there is a loss to the U.S. Treasury in tax payments as a result of these individuals becoming shareholders.

Mr. WALLICH. The U.S. Treasury negotiated these tax treaties, so there are probably some losses and some gains.

Mr. ROSENTHAL. The Treasury is trying to renegotiate all those treaties. You still have not told us the extent of your investigation of the character and integrity of the individuals. You told us you used all the resources that are at your command, both foreign and domestic, and many U.S. agencies. However, why is that kind of an investigation less fulfilling than if you had to make an investigation of a U.S. citizen?

Mr. WALLICH. I would think it certainly involved a greater effort and more input of resources than one would on a U.S. citizen. Admittedly, abroad it is less easy to get a clear picture.

Mr. ROSENTHAL. Did you send any people overseas to the home countries of these folks?

Mr. WALLICH. I do not recall.

Mr. ROSENTHAL. I still do not understand exactly what you did do.

Mr. WALLICH. Some sources of information close up if one refers to them publicly. So just allow me to say that we used all sources that were at our disposal. I think a very unusual effort was put into this because of the importance of getting a clear picture. After putting it all together and getting the cross-checks, we arrived at the conclusion that these were satisfactory.

Mr. ROSENTHAL. In other words you did not send any investigators out to interview these people or to look into their backgrounds or anything like that.

Mr. WALLICH. We saw some of them in Washington. We had a meeting which the law did not call for, but we thought it was desirable. They were represented by counsel and in part appeared in person.

Mr. ROSENTHAL. Did you ask them any personal questions at the meeting?

Mr. WALLICH. There is a detailed record of the whole thing which became part of the record of the proceedings.

Mr. ROSENTHAL. Please continue with your statement.

Mr. WALLICH. I now turn to Litco, which in a sense I think presents the most important issues for the Congress to think about.

In December 1981 Banca Commerciale Italiana [BCI] applied to the Board to acquire Litco, the Long Island Trust Co. Bancorporation of New York, a bank holding company owning all of the shares of Long Island Trust Co. Long Island Trust Co. had about \$1.1 billion in assets, and its business orientation was primarily directed to domestic business in the Metropolitan New York area.

BCI was the second largest bank in Italy. It had consolidated assets of about \$34.5 billion. BCI conducted a wholesale banking business in the United States through branches in New York and Chicago and through an agency in Los Angeles. BCI is indirectly owned by the Italian Government through a Government holding company, the Istituto per la Ricostruzione [IRI].

In this case as with the Midland/Crocker acquisition, there were few issues under the statutory factors that are prescribed in the Bank Holding Company Act. The Board found that the acquisition would have no significantly adverse effect on the concentration of banking resources or on existing potential competition. BCI had committed to inject \$20 million of foreign capital into Litco and to maintain Litco among the more strongly capitalized institutions in the United States.

As for BCI itself the Board made its evaluation on the basis of its policy statement on supervision of foreign bank holding companies that takes a number of factors into account in judging the financial and managerial resources of a foreign banking organization. In addition to its financial condition, these included the record and integrity of management, the bank's standing and role in its home country, and the opinion of the home country regulators. Having considered these factors the Board concluded that the financial and managerial resources of BCI were satisfactory.

During the Board's consideration of this case, several issues emerged that stemmed from the fact that BCI is indirectly owned by the Government of Italy. The four largest banks in Italy are nationalized institutions. All conduct banking operations in several States in the United States. The Italian Government also operates a number of nationalized industries and commercial enterprises, many of which have subsidiaries in the United States.

The specific question that arose in these circumstances was how foreign governments or governmental entities should be treated under the Bank Holding Company Act. Should they be subject to the same provisions as a private company, or is a different treatment warranted?

The principle of national treatment is the basic Government policy toward foreign banks and is embodied in the International Banking Act of 1978. The essence of that principle is that foreign banking organizations and their owners be treated the same as their domestic counterparts. The Bank Holding Company Act which governs the activities of domestic banking organizations has among its purposes the prevention of conflicts of interest and undue concentration of resources. These objectives are intended to help insure that banks of the United States serve as effective and impartial credit intermediaries.

To this end the act provides that a private company cannot own a U.S. bank and also own companies in the United States that engage in industrial and commercial activities. Also a private company cannot, as a general rule, own and operate banks in more than one State. These rules apply to all private companies, domestic or foreign, although for foreign private companies exceptions are allowed for indirect interests in the U.S. operations of foreign commercial and industrial companies.

Application of these rules to a foreign government would mean that it could not indirectly own banks in more than one State. Similarly, the foreign government that indirectly owned a bank in the United States would have to conform its nonbanking activities in the United States to those permissible to a privately owned foreign banking organization.

Failure to apply these rules to foreign government-owned banks, it can be argued, would give those organizations advantages over their privately owned counterparts and thus would be inconsistent with the principle of national treatment.

Distinctions can be drawn between private and government ownership and they may form a basis for differences in treatment. The Bank Holding Company Act presumes that all banks and nonbank companies under common ownership and control are operated as an integrated whole. That presumption stems from the act's objectives of avoiding conflicts of interest and undue concentration of resources when banking and nonbanking activities are combined under common control and management. This presumption also reflects experience, especially in the United States, that private companies do operate in this way.

Foreign countries that have nationalized banks and other enterprises have done so for a variety of historical and policy reasons. Some foreign governments do operate, and in fact have good policy reasons for so operating, the nationalized banks and nationalized businesses as separate entities. However, conditions vary from country to country and may change over time within a country with changes in political philosophy or in other circumstances. This diversity highlights the difficulty of establishing a policy suitable to all situations that avoids making arbitrary distinctions among countries.

Little guidance on these questions is provided in the act. It expressly exempts from its application organizations owned by the Federal Government or State governments. However, it is silent on the status of foreign governments.

The question of applying the act to foreign governments is not concerned with the activities they conduct within their own territories or outside the United States. It is solely concerned with those activities that extend into the United States. Applying the act to foreign governments even in the more limited sense has broad implications that extend beyond the purely regulatory issues. For example, strict application of the limitation on nonbanking activities could preclude foreign government-owned banks from engaging in banking activities in the United States. This could raise important questions in the fields of U.S. foreign relations and U.S. foreign investment and economic policy.

Prior to the BCI case the Board had approved a number of applications to form bank holding companies by foreign banks that were government-owned and where the foreign government indirectly had commercial and industrial activities in the United States. In those cases the Board did not apply the act to the applicant's government owners. After careful consideration and pending further examination of the issues outlined here, the Board decided to continue the previous practice in the BCI case.

In approving the application the Board recognized that the act is concerned not only with problems of actual conflicts of interest or concentration of resources but also with the potential for those problems. For this reason the Board in its order highlighted its belief that the issues associated with foreign government ownership should be brought to the attention of the public for further discussion and debate. Because of the complexity and far-reaching implications of these issues, some of which I have tried to convey, the Board stated in its order that they should be resolved in a congressional framework where all of the relevant considerations could be examined and weighed.

In recognition of the potential conflicts in the BCI case, the Board decided that Italian Government-owned banking and non-banking organizations were affiliates of LITCO. As a consequence, the amount limitations and collateral requirements of section 23A of the Federal Reserve Act would apply to extensions of credit by LITCO to these affiliates. The Board believes that the application of section 23A to this situation would help limit the potential for practices conflicting with the purposes of the Bank Holding Company Act.

Mr. Chairman, I believe I will conclude here. Thank you very much.

Mr. ROSENTHAL. Thank you, Mr. Wallich.

[Mr. Wallich's prepared statement follows:]



GERALD LEWIS
COMPTROLLER OF FLORIDA

OFFICE OF COMPTROLLER

DEPARTMENT OF BANKING AND FINANCE

STATE OF FLORIDA

TALLAHASSEE

32301

December 18, 1985

Mr. Agha Hasan Abedi
Director and President
Bank of Credit & Commerce International
100 Leadenhall Street
London
United Kingdom

Dear Mr. Abedi:

I am happy to have this opportunity to share with you my firm conviction that Florida is the most commercially attractive and viable state to locate and expand your bank's US activities.

The sizeable employment gains and income growth experienced by Florida in 1985 have maintained the state's expansion at a rate surpassing the nation's. Moreover, expected improvements in Latin American economic growth promise to reinforce Florida's economic growth by stimulating the state's international trade and tourism.

Florida enjoys a differential cost advantage over many other states. The costs of office and residential housing rentals, of parking and weekly wages are relatively low. The state's commercial banks' interest expense as a percentage of interest earning assets has been lower than that of the nation's commercial banks. This may in part be attributed to Florida's large and impressively growing deposit base associated with the state's expanding economy and population.

Between January and June 1985, more applications for national bank charters were approved and more charters issued in Florida than in California and New York combined. In addition, more de novo branches of national banks were opened, and acquired through merger or conversion in Florida than in any other state in the U.S.

Florida's business environment is strengthened by a positive governmental attitude towards direct foreign investment in the state. Florida has no personal income tax and its corporate income tax rate is lower than that of many states, including California and New York.

Mr. Agha Hasan Abedi
 Director and President
 Bank of Credit & Commerce International
 Page 2
 December 18, 1985

The differential cost advantage, associated with Florida's comparatively low rental, wages and other costs, interest expense, large deposit base and low tax environment, has contributed to the high profitability of the state's insured commercial banks. In the 1980s, these banks have outperformed the nation's commercial banks as demonstrated by such profitability measures as their adjusted net interest margin, return on assets and return on equity.

So far, I have highlighted the general economic and commercial factors for locating your bank in Florida. There are also life style factors which may influence your decision to establish a commercial bank in Florida over other states in the U.S. In this respect, I want to refer to the state's educational, cultural, recreational and climatic factors which together will contribute to the quality of life of your bank's management and staff.

Florida ranks ninth in the nation in expenditures for public elementary and secondary education. There are 28 community colleges in the state offering degree programs and a broad selection of occupational programs as well. The state is rich in cultural resources. It is the home of 19 regional and municipal symphonies and its several statewide museums feature major collections. Finally, Florida's year round semi-tropical climate, moderate rainfall, abundant sunshine, fresh and sea waters, a relatively pollution-free environment - all combine to make the state an attractive and appealing place in which to live and do business.

I hope you will read the information included in this package. It includes details relating to the location decision in Florida, the state's economy, the number of national bank charter applications approved and branches of national banks opened or acquired, Florida's commercial banks' profitability and interstate banking act. Also included is my office's 1984 Annual Report on Banking in Florida.

I cannot stress too strongly my personal feeling that you should consider Florida in your future plans. I offer my assistance and that of my staff in answering your questions. Please feel free to call on us if we can assist you in any way.

Sincerely,


 GERALD LEWIS

VICE-CHAIRMAN

BARCLAYS BANK LIMITED
54 LOMBARD STREET
LONDON. EC3P 3AH

22nd April 1981

Mr. Robert Altman,
Clifford & Warnke,
815 Connecticut Avenue,
WASHINGTON D.C. 20006,
U.S.A.

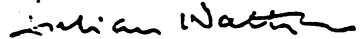
Dear Sir,

We understand that you require a bank reference for His Excellency Sheikh Kamal Adham.

We are pleased to advise you that H.E. Sheikh Kamal Adham is one of the most prominent citizens in Saudi Arabia. He is highly regarded and enjoys a first class reputation in business and financial circles.

Sheikh Kamal has important financial resources at his disposal and possesses very substantial investments in Saudi Arabia and abroad, in real estate, banking, and in trading and industrial companies. There is no doubt that he has the capacity to make substantial financial commitments.

Yours faithfully,



J.P.G. WATHEN



BANQUE DE L'INDOCHINE ET DE SUEZ

SIÈGE CENTRAL : 44, RUE DE COURCELLES, 75008 PARIS
 ADRESSE POSTALE : 9, RUE LOUIS MURAT, 75384 PARIS CEDEX 08
 TÉL. 790-62-18 - TÉLEX : INDOU X 680400 P. C.C.P. PARIS 680-03

Paris, le 21 avril 1981

42300 - RM/BN

MR Robert ALTMAN,
 CLIFFORD and WARNKE,
 815 Connecticut Avenue
 WASHINGTON D.C. 20006
 U.S.A

Dear Sir,

We are pleased to confirm the telex worded as follows
 we sent you today :

- " At the request of his excellency Sheikh KAMAL ADHAM for a
- " Bank reference, we have the pleasure to inform you that
- " we have had dealings with him for last several years.
- " We have found this relationship entirely satisfactory.
- " H.E. Sheikh KAMAL ADHAM is a citizen of Saudi Arabia of
- " high standing and reputation. He has substantial financial
- " investments in real estate, shares and stocks and in trading
- " and industrial activities, both in and outside Saudi Arabia.
- " He is known to have the capacity to make substantial financial
- " commitments, and he enjoys the reputation of meeting such
- " commitments. "

Yours faithfully.

BANQUE DE L'INDOCHINE ET DE SUEZ


 R. MISERY,
 Deputy Manager


 P. HAGEN,
 Manager

UNITED OVERSEAS BANK
BANQUE UNIE POUR LES PAYS D'OUTRE-MER

Siège social: 11, Quai des Bergues, 1211 Genève 1

Téléphone (022) 31 92 00
 Télex 23 646
 Adm. télex: UTRAFBANK
 Case postale 908

Genève, April 21st, 1981

N° réf.:
 V° réf.:

T-SB/fz
 BY SPECIAL DELIVERY

Mr. Robert ALTMAN,
 CLIFFORD & WARNKE,
 815 Connecticut Avenue,
 Washington D.C. 20006,
 U.S.A.

Dear Sir,

We understand that you require a bank reference for His Excellency Sheikh Kamal ADHAM.

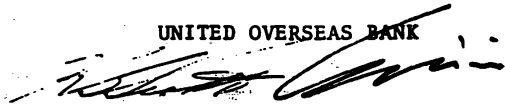
We are pleased to advise you that H.E. Sheikh Kamal ADHAM is one of the prominent citizens of Saudi Arabia.

He is highly regarded and enjoys high a reputation for his business and financial commitments.

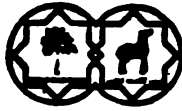
He has very substantial investments in Saudi Arabia and abroad, and possesses large financial means and has the capacity to make substantial financial commitments.

Yours faithfully,

UNITED OVERSEAS BANK



Enclosures :- list of authorized signatures of our bank
 - our 1979 annual report, from which you will note that we are an affiliate of the financial corporation for overseas countries, a wholly-owned subsidiary of : Bank of America, Banque Bruxelles Lambert, Banque Nationale de Paris and Dresdner Bank AG.



Allied Arab Bank Limited

Granite House
87-101 Cannon Street
London EC4N 6AD
Telephone 01-283 9111
Telex 6613401 6613402
Telegraph Arabal London EC4

22nd April, 1981

Mr. Robert Altman
Clifford & Warnke
815 Connecticut Avenue
Washington D.C. 20006
U.S.A.

Dear Sir,

We understand that you require a bank reference for His Excellency Sheikh Kamal Adham and it gives us great pleasure to advise you that we have had dealings with this gentleman for several years and have found this relationship to be entirely satisfactory.

His Excellency Sheikh Kamal Adham is one of the most prominent citizens of Saudi Arabia and he is highly regarded in business and financial circles. He has substantial financial resources at his disposal including investments in real estate, banking and trading and industrial activities in Saudi Arabia and abroad.

He is known to have the capacity to make substantial financial commitments and enjoys the reputation of meeting such commitments.

Yours faithfully,

S.M. SHUKRI
Managing Director
& Chief Executive

Stephen P. Munn
President

August 24, 1981

Robert A. Altman, Esq.
Clifford & Warnke
815 Connecticut Avenue
Washington, D.C. 20006

Dear Mr. Altman:

I am writing this reference letter on behalf of his Excellency Kamal Adham. I have known Kamal Adham since 1979 as he is a business partner with Carrier International Corporation.

In every respect I have found Kamal Adham to be a man of integrity with excellent moral and personal values... He has been instrumental in building our business, and I have found Kamal Adham to be an understanding, encouraging and pleasurable gentleman.

Without reservations, I highly recommend his Excellency Kamal Adham as an investor or business partner.

Sincerely,



Stephen P. Munn

SPM/vcc

WASHINGTON

CONFIDENTIAL

25/81 GO/SL

Mr R. ALTMAN
Clifford and Warnke
815 Connecticut Avenue
WASHINGTON D.C. 20006
(USA)

25th August 1981

Dear Mr Altman,

We have had, for several years, a very satisfactory and mutually beneficial business relationship with His Excellency Sheikh Kamal Adham who is our Consultant in Saudi Arabia.

His Excellency Sheikh Kamal Adham is a leading businessman of Saudi Arabia. He enjoys an excellent reputation in business and financial circles of the world and is a man of unimpeachable integrity and character.

His Excellency's financial resources are considered to be extremely large.

Yours sincerely



Guy OGEE

Deputy Manager for the Middle East

SEVEN-UP INTERNATIONAL, INC.

100 PARK AVENUE
NEW YORK, N.Y. 10017
TEL. (212) 688-4100

CABLE ADDRESS:
FOLD NEW YORK
TELEX 7102010130

Mr R Altman
Clifford & Warnke
815 Connecticut Avenue
Washington D.C. 20006
U.S.A.

26th August, 1981


Dear Sir,

This letter serves to highly recommend His Excellency Sheikh Kamal Adham as an outstanding businessman with an excellent reputation for ability and integrity.

Our Company's long association with His Excellency as our Franchisee in the Kingdom of Saudi Arabia and Egypt, has been a pleasure for all those who had the opportunity to have direct business contacts with him, because of his high spirit of cooperation.

He has always displayed in addition to good business judgement, a thorough understanding of world affairs, specially the Middle East.

Yours faithfully,


G Bechaalany
Vice President
Seven-Up S.A.
Europe/Middle East/Africa



Konzernleitung

22.11.81
Mister R. Altman
Clifford and Warnke
Connecticut Avenue 815
Washington D.C. 20.006
USA

Ebikon, September 3rd, 1981.


Dear Mr. Altman,

For more than 25 years we now co-operate in a most agreeable way with H.E. Sheikh Kamal Adhan who is our business-partner in Saudi Arabia. We have been honoured to work with him. He is very well established in Saudi Arabia, enjoying an impeccable reputation as a business-leader in this country.

Our relationship has so far been a very successful one. H.E. Sheikh Kamal Adhan has always adhered to all his obligations to our company. His financial resource to our knowledge, are very large.

Yours sincerely,
SCHINDLER MANAGEMENT LTD.


Jean Bonnard


Dr. U. Sigg

**ALAHLI BANK
OF
KUWAIT
K.S.C.**

THE GENERAL MANAGER

KUWAIT. April 16th, 1981

**TO WHOM IT MAY CONCERN

This is to certify that Mr. Faisal Saud Al Fulaij, son of Mr. Saud Al Fulaij is very well known to us. He is one of the most important personalities in Kuwait and comes from a highly respected and wealthy family. His business dealings with us have been extremely satisfactory.

He is reported to have large investments both in Kuwait and abroad and possesses large means. In our opinion he is quite capable of engaging himself in any business venture or investments both in Kuwait and abroad.



Abdul Kader AlSeesi



To Whom It May Concern

This is to certify that Mr. Faisal Saud Al-Fulaij was the Chairman of Kuwait Airways Corporation from 1965 to 1977 when he resigned of his own free will apparently to look after his various business interests and investments both locally and abroad.

Mr. Faisal Saud Al-Fulaij is a highly respected person and belongs to one of the few most prominent families of Kuwait .

أحمد

Ahmed Al-Mishari
CHAIRMAN / MANAGING DIRECTOR

Kuwait,

19th. October. 1981

PROXY

The undersigned, Ghanim Al-Masrui, acting on behalf of H.H. SHEIKH ZAYED BIN SULTAN AL NAHYAN (the "Shareholder") pursuant to a duly executed power of attorney authorizing such action, hereby authorize J. Kirk Wade , of Washington , D.C. ,U.S.A., to act as proxy at the 1990 Annual General Meeting of the Shareholders of Credit and Commerce American Holdings N.V. ("CCAH"), and at any adjournment or follow-up meeting thereof, and at any other meeting of shareholders of CCAH the agenda of which includes the amendment of any provision of the Articles of Incorporation of CCAH, with power to exercise, in his absolute discretion, the Shareholder's voting rights with respect to the 33,994 shares owned by the Shareholder. This proxy shall be revocable by written notice to any of the Managing Directors of CCAH and shall expire on March 1, 1991.

Given and executed in Abu Dhabi, United Arab Emirates, as of this 26th day of December, 1990.



Ghanim Al-Masrui

Attorney in Fact

for H.H. Sheikh Zayed bin Sultan Al-Nahyan

PROXY

The undersigned, Ghanim Al-Nasrui, acting on behalf of H.E. SHEIKH KHALIFA BIN ZAYED AL NAHYAN (the "Shareholder") pursuant to a duly executed power of attorney authorizing such action, hereby authorize J. Kirk Wade, of Washington, D.C., U.S.A., to act as proxy at the 1990 Annual General Meeting of the Shareholders of Credit and Commerce American Holdings N.V. ("CCAH"), and at any adjournment or follow-up meeting thereof, and at any other meeting of shareholders of CCAH the agenda of which includes the amendment of any provision of the Articles of Incorporation of CCAH, with power to exercise, in his absolute discretion, the Shareholder's voting rights with respect to the 28,741 shares owned by the Shareholder. This proxy shall be revocable by written notice to any of the Managing Directors of CCAH and shall expire on March 1, 1991.

Given and executed in Abu Dhabi, United Arab Emirates, as of this 26th day of December, 1990.



 Ghanim Al-Nasrui

Attorney in Fact
 for H.E. Sheikh Khalifa bin Zayed Al-Nahyan

ABU DHABI INVESTMENT AUTHORITY
Managing Director's Office

جهاز أبوظبي للاستثمار
مكتب المدير العام

Date Dec. 27, 1990 التاريخ

No. رقم

PROXY

The undersigned, Mohammed Habroush, the Managing Director of the ABU DHABI INVESTMENT AUTHORITY, (the "Shareholder"), pursuant to authority granted to me for such action, hereby authorize Mr. J. Kirk Wade of Washington, D.C., U.S.A., to act as proxy at the 1990 Annual General Meeting of the Shareholders of Credit & Commerce American Holdings N.V. ("CCAH"), and at any adjournment or follow-up meeting thereof, and at any other meeting of shareholders of CCAH the agenda of which includes the amendment of any provision of the Articles of Incorporation of CCAH, with power to exercise, in his absolute discretion, the Shareholder's voting rights with respect to the 19,141 shares owned by the Shareholder. This proxy shall be revocable by written notice to any of the Managing Directors of CCAH and shall expire on March 1 1991.

Given and executed in Abu Dhabi, United Arab Emirates as of this 27 day of December, 1990.

Mohammed Habroush
Managing Director
Abu Dhabi Investment Authority



Kamel Adham

PROXY

The undersigned, H.E. Sheikh Kamal I. Adham hereby authorizes Etrusco International, N.V. and/or Equilan N.V. , of Curacao, Netherlands Antilles , to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about December 21, 1990 , and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 36,493 Shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

1 - To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.

2 - To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989 .

3 - To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:

- Clark M. Clifford (Chairman)
- Robert A. Altman (Secretary)
- Jack W. Beddow
- A. Vincent Scoffone
- Etrusco International N.V.

K.A.

ADHAM CORPORATION
(Limited)

4 - To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles. In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven(7) days and submit these amendments to a vote in conformity with Article 18.2 . which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast . regardless of the capital represented at such meeting.

5 - To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.

6 - To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in Jeddah, Saudi Arabia . as of the
20th day of December, 1990



ADHAM CORPORATION

Attachment

222XX

The undersigned, E. A. Ali Mohamed Shorafa

hereby authorizes Strasse International, N.Y. and/or Equilan N.Y., of Curacao, Netherlands Antilles, to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.Y. (CCAH) to be held in Curacao on or about December 31, 1980, and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 24,718 shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

1. To confirm and adopt the financial statements of CCAH for the year 1980 and discharge the Board of Managing Directors for their administration during that year.
2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1980.
3. To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Litman (Secretary)
 - Jack W. Boddy
 - A. Vincent Stiffens
 - Strasse International N.Y.
4. To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5. To authorize Equilon N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
6. To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in Abu Dhabi, U.A.E., as of the 16th day of December, 1990.


H.E. Ali Mohammad Shorafa

Attachment

P R O X Y

The undersigned, Faisal Saud al Fulaij,
 hereby authorizes Etrusco International, N.V. and/or Equilan
 N.V., of Curacao, Netherlands Antilles, to act as proxy at the
 Annual General Meeting of Shareholders of Credit and Commerce
 American Holdings, N.V. (CCAH) to be held in Curacao on or
 about December 21, 1990, and/or any follow-up meeting with the
 same agenda, with power to exercise, as directed herein, the
 undersigned's voting rights with respect to the 26,439
 shares owned by the undersigned and to vote such shares only
 in favor of the following motions to be made at that meeting
 and for no other purpose:

1. To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989.
3. To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Beddow
 - A. Vincent Scoffone
 - Etrusco International N.V.
4. To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

- 2 -

In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5. To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
6. To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in _____, as of the 20th
day of December, 1990.



Faisal Saud al Fulaif

Attachment

P R O X Y

The undersigned, Mashriq Holding Company, S.A.,

hereby authorizes Etrusco International, N.V. and/or Equilan N.V., of Curacao, Netherlands Antilles, to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about December 31, 1990, and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 27,986 shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

1. To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989.
3. To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Beddow
 - A. Vincent Scoffone
 - Etrusco International N.V.
4. To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

OFFICE OF THE ATTORNEY GENERAL

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In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 18, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5. To authorize Sullivan N.Y. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
6. To appoint a person as contemplated by Article 18, paragraph 6, of the Articles of Incorporation.

Given and executed in Luxembourg, as of the 21th day of December, 1950.

machriq holding Company, D.A.

Attachment



Eugene MULLER



JCB DEWARD

P E R M I T

The undersigned, Clark M. Clifford,
 hereby authorizes Etrusco International, N.V. and/or Equilan
 N.V., of Curacao, Netherlands Antilles, to act as proxy at the
 Annual General Meeting of Shareholders of Credit and Commerce
 American Holdings, N.V. (CCAH) to be held in Curacao on or
 about December 21, 1990, and/or any follow-up meeting with the
 same agenda, with power to exercise, as directed herein, the
 undersigned's voting rights with respect to the 2,395
 shares owned by the undersigned and to vote such shares only
 in favor of the following motions to be made at that meeting
 and for no other purpose:

1. To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989.
3. To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Beddow
 - A. Vincent Scoffone
 - Etrusco International N.V.
4. To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

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In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5. To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
6. To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in Washington, D.C., as of the 7/15th day of December, 1990.

Clark M. Clifford
Clark M. Clifford

Attachment

P E T R O X I

The undersigned, Robert A. Altman

hereby authorizes Etrusco International, N.V. and/or Equilan N.V., of Curacao, Netherlands Antilles, to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about December 21, 1990, and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 1,197 shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

1. To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989.
3. To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Beddow
 - A. Vincent Scoffone
 - Etrusco International N.V.
4. To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

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In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5. To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
6. To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in Wah. Dc, as of the 21st
day of December, 1990.

Robert A. Altman
Robert A. Altman

Attachment

P R O X Y

The undersigned Abdul Raouf Khalil, hereby authorizes J. Berkvens and/or A. Grul, Attorneys at Law in Curacao, Netherlands Antilles, to act as his/its proxy at the Annual General Meeting of shareholders of Credit and Commerce American Holdings, N.V. ("CCAH") to be held in Caracao on or about July 16, 1984 with power to exercise, as directed herein, the undersigned's voting rights with respect to 13,250 CCAH shares owned by the undersigned and to vote such shares only in favour of the following motions to be made at that meeting and for no other purpose :

1. To confirm and adopt the financial statements of CCAH for the years from incorporation through 1983 and discharge the Board of Managing Directors for their administration during that period.
2. To eliminate the provisions for a board of supervisory directors by amending the Articles of Incorporation of CCAH in the following respects :
 - (a) To delete paragraph 3 of Article 4 and replace it by (translated) :
 "3. The shares shall be issued by the board of managing directors".
 - (b) To delete paragraphs 1, 2 and 6 of Article 9 and replace them by (translated) :
 "1. The corporation shall be managed by a board of managing directors consisting of one or more managing directors. Legal entities may also be appointed managing directors".

(b)

"2. The managing directors shall be appointed by the general meeting of shareholders and may at any time be suspended or removed from office by the meeting".

"6. When one or more managing directors are absent or otherwise precluded from acting, the remaining managing director(s) shall be responsible for the entire management of the corporation; when all the managing directors are absent or otherwise precluded from acting, the corporation shall be managed temporarily by a person appointed for that purpose by general meeting of shareholders. The person so appointed shall call a general meeting of shareholders as soon as possible in order to provide for a definitive management.

As long as this has not been accomplished, the acts of management of the person so appointed shall be limited to those which cannot be postponed".

(c) To delete Article 10 in its entirety.

(d) To delete paragraphs 1 and 7 of Article 12 and replace it by (translated) :

"1. Each of the managing directors and any number of shareholders representing jointly not less than ten per cent of the subscribed capital have equal authority to call a general meeting of shareholders".

(d)

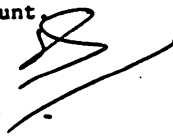
"7. Shareholders may be represented at the meetings by a proxy appointed in writing, telegraphically or by telex. Managing directors and, in general, persons in the employment of the corporation may not act as proxies of shareholders at the meetings".

(e) To delete paragraphs 1 and 3 of Article 16 and replace it by (translated) :

"1. Within eight months after the close of the fiscal year, the board of managing directors shall submit to the general meeting of shareholders the balance sheet and the profit and loss account for the past fiscal year, along with the explanatory statement referred to in Article 11.

The balance sheet, profit and loss account and explanatory statement shall be signed by all the managing directors. If the signature on one of them is lacking, the reason shall be stated on the documents".

"3. The annual general meeting of shareholders has the power to confirm the balance sheet and the profit and loss account.



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(d) "3.

Confirmation of the balance sheet and the profit and loss account shall discharge the board of managing directors from all liability with regard to their management for the past fiscal year, in so far as their administration is evidenced by the documents submitted and provided the meeting does not decide otherwise when the balance sheet and profit and loss account are to be confirmed and adopted".

3. To authorize J. Berkvens and/or A. Grul, Attorneys at Law of Curacao, Netherlands Antilles, to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and, furthermore, to perform anything required or appropriate to the foregoing.

Given and executed in Saudi Arabia as of the 10th day of July, 1984.



El Sayed El Gohari
(Shareholder)

*Credit and Commerce American Holdings, N.V.
 Pietermaai 6, Willemstad
 Curacao, Netherlands Antilles*

CONFIDENTIAL

June 9, 1989

OFFERING MEMORANDUM

Credit and Commerce American Holdings, N.V. (CCAH) is a Netherlands Antilles holding company whose principal operation is First American Bankshares, a major U.S. bank holding company. During 1988, First American Bankshares' total assets exceeded \$10 billion, which represents an approximate fivefold increase in assets since CCAH's acquisition of the Company in 1982. During this seven-year period earnings have reached record levels each year. Our shareholders' ownership of CCAH stock is thus believed to have continued to appreciate substantially in value.

A two-stage right shares offering in the amount of \$100 million is being presented during 1989 to raise additional capital to support the Company's expansion and to provide the capital base required by U.S. bank regulatory requirements. The first offer for \$50 million is open until June 30, 1989. The second offer for \$50 million is to take place during the second half of 1989. We believe these offerings represent a unique investment opportunity to continue to participate in the future growth of this successful company and to enjoy the

anticipated continuing capital appreciation of share ownership in CCAH. Upon completion of this capital infusion, we do not contemplate, for reasons set forth below, the need for substantial rights offerings again for a number of years, and therefore the 1989 offerings constitute an important opportunity to purchase additional shares at 1988 year-end book value.

First American Bankshares -- Updated Profile

First American Bankshares is a multi-state bank holding company operating eight commercial banks in New York, Maryland, Virginia, Georgia, Florida, Tennessee, and Washington, D.C. Ranked by assets, it remains the largest bank holding company headquartered in Washington, D.C. The First American system now includes over 5,700 employees, 280 branch offices, and 219 automated teller machines (ATMs), with access to more than 20,000 more ATMs nationwide. Accompanying this Offering Memorandum is the First American Annual Report for 1988 providing audited financial and other details regarding the Company.

First American is the only banking corporation with full service banking facilities in all of the following key markets: the Nation's money center of New York and its capital city, Washington, D.C.; the entire metropolitan area of Washington, D.C., including adjoining markets in Virginia and

Maryland; the Southeast region, including the Atlanta and Florida markets; and four of the Eastern Seaboard's largest port cities -- New York, Norfolk, Baltimore, and Miami. It is a franchise that would be virtually impossible to duplicate today by a new banking organization.

First American achieved record levels in assets and earnings in 1988, extending a positive growth trend first established seven years ago when new management assumed control. Total assets increased to \$10.6 billion in 1988 and net income (after taxes and reserves) rose 59.2% to \$80 million. Net income growth has thus been accelerating, the year 1988 representing an approximate doubling of net income since 1986. As explained below, the growth in net income is expected to continue.

The Company's financial achievements have been derived from strong growth together with gains from a program of consolidating the operations of First American's affiliates. The results have, in our view, produced a handsome increase in stock value for CCAH shareholders, sound prospects for growth in 1989 and beyond, and the anticipated increase in income to help support further expansion.

Our financial results have been achieved through aggressive but prudent management. First American's earnings have been continuously reinvested in order to strengthen the member banks and permit them to exploit market opportunities

for long-term financial benefit. For example, after its initial start-up period, the First American Bank in New York registered a breakthrough year of profitability in 1988 and evidences prospects for future growth. The First American Banks serving Maryland, Virginia, and the greater Washington, D.C. metropolitan area have cut operating expenses through consolidated operations and now are headquartered in a new \$30 million building complex near the Nation's capital. A consolidated marketing thrust by these banks has produced sharply increased earnings.

The acquisition of the National Bank of Georgia consummated in mid-1987 proved to be a sound investment. After experiencing years of deteriorating performance and declining earnings including losses of over \$8 million in 1987 when it was owned independently, the bank renamed First American Bank of Georgia, N.A. recorded its best year ever in 1988 with net earnings of over \$17.5 million. A strong management team has reinvigorated the Georgia banking operations, and with its presence in Florida offers First American the opportunity to expand its reach in that growing state as well. Entry into the vibrant markets of Georgia and Florida was well-conceived and positions us for further expansion in the Southeast region, a core element of First American's strategic plan for the 1990's.

Committed to becoming one of the leading banks in the United States, First American is dedicating resources to

developing expanded management skills at all levels to guide the institution into the next decade. In 1988, the Company established the First American Management Institute in cooperation with the prestigious Wharton School of Business at the University of Pennsylvania in Philadelphia. This program to send mid-level and senior officers to Wharton for sophisticated course work will provide our managers with the additional knowledge and skills they will need to assure our continuing financial progress. In addition, an internal management program called "First Advantage" is recruiting highly qualified students from top colleges and universities to serve as junior officers and offering them training in the complexities of today's commercial banking and financial services industry. This commitment to infrastructure -- both human and technical -- is essential to growth and expansion in the future.

Further, we established a centralized data processing subsidiary, First American Data Services (FADS), which now operates a facility containing state-of-the-art data processing equipment. This department can support in one center the data processing needs of the entire banking group. And, given the key role data processing now plays in banking operations, FADS is expected to provide important operating advantages while controlling costs in the future.

First American also sought to move into new areas in 1988 when important financial opportunities were identified.

We established First Advantage Mortgage Corporation to originate and service residential mortgage loans for all our member banks. We are located in strong housing markets and can thus produce valuable loans and fees through this operation. Offices will be in or adjacent to existing First American branches, and 24 such facilities are expected to be operational by mid-1989. Also in 1988, First American established a Customer Investment Department to offer a range of brokerage services and investment advice to customers in the Washington metropolitan area.

Despite dramatic balance sheet growth over the past seven years, First American has maintained exceptionally high asset quality. In the loan portfolio, it enjoyed in 1988 an outstanding charge-off rate of only .39 percent of total loans. While we cannot expect this unusually favorable result to continue at this level, our experience to date compares extremely favorably with our competitors where we find a recent U.S. banking peer group average of .93 percent. Indeed, among the major bank holding companies in First American's region the Federal Reserve Board found in an internal study that First American ranked first in this important measure of asset quality. First American's loan portfolio benefits from a lack of sovereign debt or political debt which has been problematic for many other banks.

This past year First American established a Credit Administration Division for the express purpose of developing

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standard lending policies for all First American Banks, ensuring that the institution will maintain the excellent quality of its loan portfolio as it grows.

The trend toward increased shareholder value is detailed in the accompanying First American Annual Report for 1988. The Company's net worth position is presented according to generally accepted accounting principles (GAAP) used in the U.S. It is noted, however, that assets and liabilities must be recorded under GAAP on an historical cost basis rather than current market values.

Meeting Expansion Goals And Regulatory Capital Requirements

First American's strategic plan remains forward-looking:

- to continue to achieve a substantial expansion of our balance sheet each year;
- to consider attractive acquisition candidates in markets that show unusual potential;
- to increase the efficiency of our banks and achieve cost efficiencies; and
- to continue to produce significant appreciation in the value of CCAH shares for our investors.

Consistent with its fundamental corporate mission to become one of the major financial institutions in the United States, First American in 1989 intends to expand in two significant respects.

First, preliminary budget projections based on internally generated growth call for net income (after taxes and reserves) of approximately \$90-95 million in 1989. Each member bank in the First American system is contributing to net income and cost saving measures are leading to greater profitability.

Second, senior management will pursue new financial markets and opportunities, including additional bank acquisitions. Acquisition candidates may include financially troubled savings and loan institutions in markets in, or contiguous to, markets presently served by the First American network. Given the serious financial problems of these savings banks, unique opportunities may exist to expand our markets with assistance from the Federal Government which may assume the financial risk of loss in return for our supplying management expertise to the acquired company. First American is currently reviewing potential targets that could present unique opportunities to enter attractive markets with financial protection from the Federal Government.

First American is also considering expansion of its banking presence in Florida, the fourth largest state in population in the United States. Currently, as a result of our acquisition of the First American Bank of Georgia, N.A. and its affiliates, First American has a toehold presence in Pensacola, Florida and Miami, Florida. Florida represents a

dynamic arena for commercial banking and financial services, and complements the expansion southward by the Company. A number of promising candidates are under consideration.

1989 Right Shares

To support the expansion of our asset base, new capital is required. Reflecting today's public concern over the sufficiency of capital among large U.S. banks, bank regulatory authorities during 1988 tightened capital adequacy requirements. The Federal Reserve Board has also announced that as part of its capital adequacy requirements, it is moving toward a more risk-based approach which imposes higher capital levels on those banks engaged in financial transactions with greater risk of loss. For First American, this regulatory shift should be favorable because of our conservative, risk aversion approach. Thus, meeting the capital/asset requirements in the future may not require the levels of capital infusion that have been required in the past. First American's accelerated earnings should further contribute to capital adequacy and lessen the need to seek additional equity from our shareholders to sustain growth in 1990 and beyond. The two-stage right share offering during 1989 may thus represent a unique opportunity to purchase equity in the Company in this manner in the near term.

Accordingly, to provide the capital for the continued growth and development of this Company in 1989, CCAH as the

parent holding company of First American Bankshares seeks to raise \$100 million with \$50 million to be raised by June 30, and the balance of \$50 million during the second half of 1989. The new equity capital will be directed toward supporting First American's expansion program of new acquisitions and internal growth.

Through conservative management, prudent investment strategies, and shareholder support, First American is advancing steadily toward meeting its corporate mission of becoming a leader among the major financial institutions in the United States. As such, it provides our shareholders with the unique opportunity to benefit from the further anticipated capital appreciation of their investment.

THE MANAGING DIRECTORS

SEP 9 1983

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME LICENSED DEPOSIT TAKER
 100 LEADENHALL STREET LONDON EC3A 3AD

23rd August, 1983

Mr. Robert A. Altman,
 Messrs Clifford & Warnke,
 815 Connecticut Avenue,
 Washington DC 20006,
 U S A.

Dear Mr. Altman,

I acknowledge, with thanks, your letter of 18 August, 1983.

We have conveyed the information contained in your letter to the investors who are very pleased indeed on the ruling of the Federal Reserve Board regarding the application of CCAH and its subsidiaries to acquire Valley Fidelity Bank Tennessee.

They look forward for the satisfactory completion of the acquisition.

With warm regards.

Yours sincerely,



SWALEH NAQVI

CLIFFORD AND ALTMAN STOCK TRANSACTIONClark M. Clifford

Gross Amount Received	\$21,760,000.00
Less:	
<u>Costs and expenses paid</u>	
Repaid Note of July 25, 1986	(9,960,920.00)
Repaid Note of August 14, 1987	(2,310,930.00)
Interest paid on loans	(1,411,831.00)
Commission on sale	<u>(1,500,000.00)</u>
Subtotal	\$ 6,576,319.00
State and Federal Taxes (approx.)	<u>(3,825,000.00)</u>
Net cash to Clark M. Clifford	\$ 2,752,319.00

Shares Remaining After Sale: 2,246*

Robert A. Altman

Gross Amount Received	\$10,880,000.00
Less:	
<u>Costs and expenses paid</u>	
Repaid Note of July 25, 1986	(4,979,352.00)
Repaid Note of August 14, 1987	(1,154,250.00)
Interest paid on loans	(725,289.00)
Commission on sale	<u>(750,000.00)</u>
Subtotal	\$ 3,271,109.00
State and Federal Taxes (approx.)	<u>(1,918,000.00)</u>
Net cash to Robert A. Altman	\$ 1,353,109.00

Shares Remaining After Sale: 1,122*

* It is incorrect to assume that the shares retained by Clifford and Altman could be assigned the same value per share as those sold to one interested purchaser in 1988. Today, the value of bank stocks has sharply declined and there is no present market for their current holdings.

Mr. CLIFFORD. Thank you, Senator.

Mr. ALTMAN. Thank you, Mr. Chairman.

Senator BROWN. As I read that transaction, the combined gross profit or capital gain was roughly \$9.5 million?

Mr. CLIFFORD. Yes. What the Senator—we looked at the transaction in its entirety. We had made an investment of a certain number of dollars and then, when we sold a part of our stock, that was a certain total. And that gave us what the profit was compared with the amount that we'd spent and the amount that we received. And you put Mr. Altman's and my profit together, it came to over \$9 million before taxes, and after taxes, I think my profit was about \$2.7 million and his was about \$1.3, something like that.

Mr. ALTMAN. Senator, I think it's also relevant to note for the record, when you're examining this transaction and your questions focus on the distinction between a sale at book value and then a subsequent sale of the shares, that this was not a practice that was unique to Mr. Clifford and me and this transaction. This was a practice that First American followed generally. When First American was acquired, the minority—excuse me—the subsidiary banks that it owned had minority shareholders, and from time to time an effort would be made to raise capital for those subsidiary banks, and a rights offering would go out for the shareholders of the subsidiary bank, just as they did here for the holding company.

Now, whenever we issued stock and this would be stock that would be issued to the public, the public would also buy the stock in First American at book. Now, if a member of the public is a minority shareholder of, say, First American Bank of Maryland and that bank is raising additional money, that shareholder buys the stock at book. When the shareholder goes to sell the stock, that price may be higher or lower than book. Today, most stock will trade at a substantial discount from book. Back in 1988, when we sold ours, the stock generally traded at a substantial premium to book, but there are two different pricings and that's—what I'm describing is that the transaction that we followed here for the holding company was the same practice that we followed with the public in the sale of stock in our subsidiary banks.

Senator BROWN. Well, I noticed your sale in 1988 being at a little over \$6,800 or in that neighborhood. The report I have is that in 1989, after another profitable year, the stock you were able to purchase at less than \$3,000 a share, some additional stock—

Mr. ALTMAN. That was another rights offering and, as I've just described, rights offerings were done at book. That was done by the top holding company and that was done by our subsidiary banks with the public or the company taking its portion of it.

Mr. CLIFFORD. If I might add, it's there—see, we had become shareholders in 1986, so whenever there was a rights offering after that, we were entitled to whatever our share was of the rights offering at the book price, which was what all the other shareholders paid. So when we bought that stock for some little less than \$3,000, every other shareholder bought it at the same price.

Senator BROWN. So it was rights based upon your holding of the stock?

Mr. CLIFFORD. Exactly, Senator.

Senator BROWN. And that was made available proportionately to all stockholders at the time.

Mr. CLIFFORD. Exactly.

Senator KERRY. Could I just talk a minute?

Senator BROWN. Sure.

Senator KERRY. When you talk about this sort of offering of rights and transfers, in effect First American was taken private, correct?

Mr. ALTMAN. It was, over a period of time.

Senator KERRY. So that when you became shareholders, am I correct—I am not sure of this—in about 1986—

Mr. CLIFFORD. Yes.

Senator KERRY [continuing]. It was private?

Mr. CLIFFORD. Oh, completely.

Mr. ALTMAN. The holding company was private, not the subsidiary banks.

Senator KERRY. No. I understand, not the subsidiary banks, but when you talk about the share offerings that you and I are referring to, we are not really talking about a share offering to the public. We are talking about a share offering to this small family, this sort of network family?

Mr. CLIFFORD. Only to shareholders.

Senator KERRY. And the shareholders, at that point, were what—about 30 people, correct?

Mr. ALTMAN. About half that.

Senator KERRY. Half of that, 15 people. So when you say this was offered to people, it was offered to other people, all of whom were part of this little family—the shareholders? This was Mr. Kamal Andam; this was Sheik Zayed, et cetera. Correct?

Mr. CLIFFORD. There were 14 shareholders and when there was a rights offering, it was confined to those 14 shareholders.

Senator KERRY. What confuses me a little bit is, as my colleague pursues this, I was looking at a spreadsheet here for 1986, this is just for Mr. Hammoud's purchases. Now, in 1986, Mr. Hammoud purchased shares; he purchased 5,747 shares for \$2,216 per share, and it was financed by a loan from BCC. In 1987, he purchased 1,216. The price was \$2,430 per share. He again—a loan from BCC. In 1987, he purchased 2,803 shares for \$2,430, a loan from BCC financing it, and then, suddenly in 1988, about what—5 months later, he purchased 1,600 shares for \$6,800, a loan from BCC; and then, on the same day, another 3,200 shares for \$6,800, financed by a loan from BCC. And then, 1 year later, he buys 968 shares, but suddenly for \$2,774 a share—a loan from BCC.

A little later—excuse me—on the same day, he purchases another 881 shares, price per share of \$2,774—a loan from BCC, and then again, subsequent transactions. You have this range of Mr. Hammoud, exclusively from loans from BCC, buying shares and this extraordinary, sort of ballooning of the price of your shares and then the balloon deflates and suddenly, boom, he is buying them back at \$2,700.

To the person on the outside looking in at this network of sort of 14 shareholders borrowing money from BCC, all to purchase shares in CCAH, it looks like there is something going on and it is hard to

explain it. Were there different voting powers in these different shares?

Mr. CLIFFORD. Well, I think there are two explanations, Senator. See, you are looking at two separate types of transactions. One, when he pays something in the neighborhood of \$2,300 up to \$2,700 for stock, you are looking at very likely a book transaction. Sometimes when offerings were made and some of the other shareholders did not subscribe, they might let another shareholder get theirs, so he'd get theirs at book also. That would account for some of it. Another answer to it is——

Senator KERRY. Why would he want to pay \$6,800 and incur a financial liability, since he is borrowing money to do it, when, you know, a little bit later he got it at so much less. Why would he want to incur that liability?

Mr. CLIFFORD. Well, I will give you my answer. In 1988, when he acquired our stock, there was no rights offering that year. And you notice he had been acquiring stock every year, so apparently he had made a policy decision that he wished to be an important holder of our stock. Now, although he paid a substantially higher price that year, and the very next year, you see, there was a rights offering, and that would average down his cost.

If you look at what Mr. Hammoud was doing, he made purchases over 4 years and you then average out what his cost is, and it comes to something like \$3,400 a share. So if he decided that he wanted to acquire a position, my own view is that he went at it rather astutely. Over 4 years he acquired a substantial amount of the stock, and his average was \$3,400.

Senator KERRY. You could look at it another way, which is to say that it was not so astute. He made a conscious decision to go into big debt—unless he did not have to pay the debt—but that he paid more for your stock than he paid for all the other stock that he purchased in total.

Mr. ALTMAN. But by purchasing our stock, he gained the right in subsequent rights offerings to buy more shares at book value.

Senator KERRY. He did not have that right from the prior purchases?

Mr. ALTMAN. No, sir.

Senator KERRY. Why is that?

Mr. ALTMAN. He—the previous——

Senator KERRY. I am sorry to be obtuse about it. I just do not understand it. So tell me why.

Mr. ALTMAN. That is OK.

Mr. CLIFFORD. I think Mr. Altman did not understand. From every purchase that Hammoud made, he could always participate with reference to those purchases in the rights offering.

Mr. ALTMAN. I was making a somewhat different point, and it is if Mr. Hammoud makes the decision that he wishes to become an important shareholder in First American, he likes the prospects of the company and wants to become an important investor, he—the only way he can do it is, he can pick up stock that is waived at rights offerings. But other than that, he has to buy stock from existing shareholders, and, Mr. Chairman, you've acknowledged that there are very few of those.

Now when he buys stock at a premium, that gives him the opportunity in all subsequent rights offerings to get a larger pro rata allotment of stock at book, and that is, I think, the investment approach that Mr. Clifford was describing, that is, that Mr. Hammoud was averaging down his costs, but——

Senator KERRY. How often did they make those kinds of at-premium purchases?

Mr. ALTMAN. Well, there are any number of those trades over the year. Those are in the stock register of the company. We do not know what the prices are. Mr. Clifford has indicated some of the information we have heard, although we can't state it with certainty, but there were trades over the years.

Senator KERRY. When were you granted the power of attorney to effect that sale?

Mr. ALTMAN. To effect which sale?

Senator KERRY. The stock transaction for Mr. Hammoud.

Mr. ALTMAN. Senator, last night I received from the committee a power of attorney signed by Mr. Hammoud, and to the best of my recollection I'd never seen that document before. I don't know what that relates to.

Let me make one other observation if I might on Mr. Hammoud.

Senator KERRY. Well, if I can just follow up on it because I want to try to understand this. I ask these questions again. There is a premium price and there are other sales, and I think it would be helpful to have some documentation that would show us some of the other premium sales. The reason I ask this is that this situation is not dissimilar to other powers of attorney which your firm held on behalf of all the shareholders.

Mr. ALTMAN. To the best of my recollection, that's not correct, Senator. And that's why I need a little time to study it, because I got it last night.

Senator KERRY. Did you look at the other document? There is a Qabazard, Mohammed Husain Qabazard, who gave you power of attorney in 1983, and we have a number of other power of attorney certificates which show a 1983 date.

Mr. ALTMAN. Do you have the number in the book?

Senator KERRY. I do. It is No. 27. Just behind the Mohammed Hamid.

Mr. ALTMAN. Yes, sir, I see it. We got this document last night from the committee, and we've asked counsel to take a look at the files that we have. Based on a fairly quick review, we don't believe that we have ever seen this document before. Now I have had powers of attorney from the shareholders, and that generally relates to taking action at the company, including the right to vote stock at annual meetings. But my recollection is always excluded from those powers of attorney was the right to sell stock.

Therefore, when I first saw it, I thought this was another one of those powers of attorney. But this gives an authority to sell shares, and that is something that to the best of my recollection I'd never seen before. I do not know how to explain it. I don't know where it came from, but I don't believe it was ever in our files.

Senator KERRY. Do you recall, did you have a chance at all to see or hear the testimony of Mr. Rahman?

Mr. ALTMAN. Mr.——

Senator KERRY. Rahman. He was the former comptroller. It was in the paper.

Mr. CLIFFORD. Yes.

Mr. ALTMAN. I saw portions of it.

Senator KERRY. He described under oath to this committee. He described Mr. Hammoud as the "most flexible of our flexible fronts" for BCCI.

Mr. ALTMAN. Well, I would say two things about that, Senator. The first is that Mr. Hammoud is one of the individuals who was not listed by the Federal Reserve as a nominee in their notice of charges. He was in the category of bona fide shareholder. Now, I cannot speak for the Fed, I do not know whether that is a final position or an interim position, but we noted that he was not listed.

And the second fact that I would note to you is there is a contradictory set of letters that we received. I believe we have supplied them to the committee. I know that we have supplied them to the Federal Reserve when we received them, and these were related to these loans from Mr. Hammoud that you indicated BCCI had extended.

In the fall of 1990, we had been contacted by Mr. Hammoud's estate. Mr. Hammoud had died earlier in the year. And we had been contacted by his estate. His estate believes that the stock is stock that belonged to Mr. Hammoud and now belongs to his heirs. They certainly take the position that Mr. Hammoud was no nominee. He was a bona fide shareholder. And they had asked that the stock be transferred into the names of the heirs. And we were seeking certain documentation in that regard before the transfer could be lawfully effected.

While that was under way, we were contacted by an auditing firm in London that was an auditing firm for BCCI. I had not heard of the firm before. It was called Siddiki & Co. And they wrote us a couple of letters in which they said, as to that stock which the heirs are claiming, BCCI has extended loans and we have a lien on that stock. But 3 days later—

Senator KERRY. I have just been advised that you wanted to try to have a break. Is that accurate at some point?

Mr. CLIFFORD. No. Well, let us finish this.

Mr. ALTMAN. If we could do it when we finish this subject? But 3 days later, on November 30, 1990, we received another letter from the same firm, and it reads as follows: With reference to our letters dated November 14, 1990, and November 27, 1990, we regret to inform you that both these letters were written under some misunderstanding on our part and request you to please treat them as canceled and withdrawn. So they are in effect telling us that there are no liens against these shares.

Senator KERRY. I remember that. I think you testified to that in the House.

Mr. ALTMAN. We presented that to the Federal Reserve. We don't know what the exact truth is.

Senator KERRY. Did you ever meet Mr. Hammoud?

Mr. ALTMAN. I've met his son, but I have never met him.

Senator KERRY. You never met him?

Mr. CLIFFORD. I never met him.

Mr. ALTMAN. No, sir.

Senator KERRY. Let me kind of narrow this, and tell you why the committee is concerned. And maybe you could help us out in expressing it. Is it fair to say that this was a no-risk loan to you? A no-risk stock transaction?

Mr. CLIFFORD. No, you can't go that far. What we did was minimize the risk. But as Mr. Altman explained it a little earlier—

Senator KERRY. What would you describe the risk as?

Mr. CLIFFORD. Well, one risk is that the BCCI always looked out for its own interests, as we found that out after a while. So that when we went back to them to ask for a second loan, because we had another rights offering we'd like to take advantage of, they said, well, we will lend you the money, but pay up the interest on the first loan.

We said, the interest isn't due on the first loan. They said, we do not care whether it is due or not. Unless you pay the interest up on the first loan, then we'll not make you the second loan. So we paid the interest up. As you total the amount that I paid and the total that Mr. Altman paid, it came \$1,000—\$1,008,000. So—

Senator KERRY. So did that not in effect come out of the subsequent loan they made you?

Mr. ALTMAN. The subsequent loan was used to purchase shares—in total.

Senator KERRY. The net—net at the bottomline was that you were not really out-of-pocket in a sense. Let me tell you why I say that. There was a side agreement, correct? You had a side agreement in addition to the stock and pledge, you had a side agreement?

Mr. ALTMAN. We did not have a side agreement, at least I wouldn't so characterize it. We had three documents which constituted the loan agreement.

Senator KERRY. Well, let me ask you to turn to document 24, which is a letter which you wrote to BCCI and in paragraph 1 it says, "With regard to the note and the pledge agreement jointly referred to herein as loan agreement documents, notwithstanding any provision of said loan and documents to the contrary, BCCI." So in other words, no matter what the loan documents say, we are going to agree to the following. Now I consider that an agreement outside of the loan documents.

It says, "notwithstanding the provision, BCCI and the undersigned hereby confirm and agree as follows." So this is your agreement notwithstanding the loan documents. Paragraph 1, certain clients of BCCI have given BCCI a firm commitment to purchase any of all of the undersigned CCAH shares at such time as the undersigned wishes to sell said shares, which says to me that you entered into this with an understanding that no matter what, BCCI had an agreement with you that they'd buy the shares. So you knew that you could sell the shares.

Mr. CLIFFORD. That is not quite right, Senator.

Senator KERRY. Well, help me. What does it mean, then?

Mr. CLIFFORD. It's a move in that direction, but unless a price is put in there, it's meaningless.

Senator KERRY. Well, then it says, "Paragraph 2: BCCI shall arrange for the sale of such shares to such clients in such manner

and at such prices as BCCI and the understand shall mutually determine."

Mr. CLIFFORD. All right, and if there is no agreement, then it is meaningless.

Senator KERRY. Let me go a little further. Paragraph 4 says, "As a result of the arrangements set forth in paragraph 1, BCCI has a ready market for the CCH shares held as collateral." So they are telling you that they have a ready market to secure the repayment of the note. "And it is understood and agreed that the undersigned shall not be obligated personally to repay to BCCI the loan principal or any interest accrued thereon. BCCI shall be limited solely to the undersigned's interest in the CCH shares or any proceeds thereof." That is because they held the collateral.

So they are holding the collateral—your shares. They are promising to buy them back. You do not have any interest to pay, accruing. And you have a guaranteed buyer.

Mr. ALTMAN. That is not correct.

Mr. CLIFFORD. Wait a minute.

Senator KERRY. Do I misread it?

Mr. CLIFFORD. Well, until you get down to the end. We do not have a guaranteed buyer, because there's no price stated in there at all. They say they think there is a ready market. They will investigate it, they will come up. If we set a price on it, and nobody meets that price, I say again, the language is meaningless. Senator?

Senator KERRY. Is that, respectfully, sort of a—I am looking for the right word. I mean, is that a euphemism for what you have here, really? I mean, given the relationship to BCCI, you have called it very personal, that is the way you described it at the start. There is this ongoing relationship, you have major interests together. Now are they going to suddenly refuse you the opportunity to sell your shares?

Mr. ALTMAN. Senator, I think this document may make more sense to you if you understand its origins. And if I could just take a moment with the committee and walk you through that, then this may not seem so confusing to you. I refer back to the discussion that we had earlier about the advice we received from New York counsel that this had to be a nonrecourse loan. That was their advice to us, and obviously we were going to accept their advice. They were experts in this kind of financing.

The language that you refer to in paragraph 4 was language that they drafted, for the most part. And what it does is, it makes this a nonrecourse loan. That is all that this language does. And in the BAI loan documents that were originally submitted, they put in similar language in those documents.

Now, the reason this letter was created was really as a result of the evolution of the loan documents. Originally what New York counsel had prepared was what was called a put agreement. New York counsel felt that in order to try to create liquidity in the stock, there was a need to have a put agreement, meaning an agreement which allowed the holder of the stock to sell it to someone, to create a market. So that the stock—you would not be left with an illiquid asset. So they created a put agreement.

And originally when this loan was negotiated, they drafted these documents and they drafted a put agreement with the intention that our largest investor, Kamal Adham, who had an interest and was enthused about our becoming shareholders because it gave us an incentive to make his holdings more valuable as we build the company, he was to sign the put agreement and that would create the liquidity. Now this was discussed both with BAI and with BCCI. It also gave—

Senator KERRY. When you say, give it liquidity, what you are really saying is marketability. It needed to be marketable. I understand that.

Mr. ALTMAN. Because otherwise we had no sure way of selling the stock at the time the loan becomes due. And they had the concept that it would also be advantageous to the lender, because a lender would be in the same position. The lender forecloses on the stock, and then the lender says, do I have a market to sell the stock. So—

Senator KERRY. I understand what you are saying. I am not questioning, incidentally, there is a legal structure here. I can see that. I am not arguing that this is legal or illegal. The question is, what does it say about the relationship? I mean, we are trying to get into a real person readout on this, not a legalese readout. I have no question that this is explainable in terms of marketability, input, and this or that.

But when you kind of bring it down to the lowest common denominator, the practical effect of it is to put into the hands of BCCI stock that is indeed marketable. But it is collateral against your loan. And in legal terms, because you have borrowed money and they are holding the collateral, you are the recipient of the benefit, of the proceeds, of the sale, whatever it is going to be. So when the sale ultimately takes place, you suddenly get this enormous profit.

Now I am not saying that is bad. You worked for 4 years and you deserved some remuneration. I think the question people are asking themselves, certainly the committee is saying, is, you know, wow, here is this fellow, former Secretary of Defense, an extraordinary advisor and legal icon in Washington and another extraordinarily bright capable attorney and so forth, presidents of banks, major institutions, and there is nothing in writing. There is no sort of legal agreement for their remuneration. They accept this \$50,000 and go on for these years, and then suddenly, wham-bang, there is this small family relationship turnaround of stock in a very short period of time, with a very large amount of money.

Now, you are practical people. You know that that sort of elicits a question. And I am just trying to pose the question on behalf of the people who look at this thing and say, what is going on here?

Mr. ALTMAN. Sure.

Mr. CLIFFORD. There is another factor. I did not get into it before, but it could help explain it to some extent. When we reached the decision the time had come to buy stock in 1986, at first, I did not contemplate making any loan. I could have financed it myself, and intended to finance it myself.

I then look at the situation in my portfolio. Market is very strong. I have very substantial gains in my portfolio. In order for me to raise the money, I have to liquidate those stocks and pay the

gain. And the gain is 28 percent Federal and 6 percent Maryland. So to liquidate the stocks, I have to pay a 34-percent tax on the gain.

That seemed to be an unbusinesslike way to go at it from my standpoint, and it seemed that instead of doing that at the time, I also took into consideration the fact with which you are familiar.

If I liquidate the stocks at that time, in order to get the money to do the deal, I pay that capital gains tax. If I keep those stocks, and die with those stocks, no capital gains tax is paid. So I am looking at it very carefully from the standpoint of my widow and three daughters. So I could have financed it, but from a business standpoint, I would be paying a tax that I otherwise would not pay when I die.

Senator KERRY. Is it fair to say, gentlemen, you got a hell of a good deal? I mean do you at least characterize it as that? You did not get what Steve Ross got for one year, but you got a pretty good deal.

Mr. CLIFFORD. Did we, under all these circumstances, get a good deal? I think we did. And I think I tried to explain that in the beginning by saying that the deal was arranged in a very friendly climate.

Senator KERRY. Now, do you also see—and I know, Mr. Clifford you are too smart not to, that legitimacy of the issue is raised as a consequence of that now. Do you?

Mr. ALTMAN. Sure. We understand why it creates questions for people. We understand it very clearly. I think we would prefer that we had never bought any stock in the company in light of all the controversy about it, but it seemed so routine at the time. We were involved, we were creating an enormous value here. These people were making hundreds of millions of dollars as a result of our effort, and we thought it was appropriate, if we could acquire some stock, to participate in some of that benefit that we were creating for these investors.

And Mr. Clifford talks about it was a friendly relationship; it was. When we negotiated with BCCI, it was quite friendly. They had, I think, a desire for us to acquire stock. Keep in mind, as we understood the facts, Mr. Abedi had recommended this investment to these very important clients, the people who had founded his bank, and who kept hundreds of millions of dollars—indeed, we hear, billions of dollars—in his bank. And we are taking this investment and making it, which he once said to us, it was the best investment he ever had—had recommended to any of his clients.

And so he wanted us to gain stock and have that incentive to continue to make this valuable; that put him in very good shape with his clients. That's what investment advisors like to do.

Mr. CLIFFORD. As you get into it, Senators, there is another factor. And it helped put it in perspective. In 1988, when we sold the stock, as we looked at the figures in that year, the amount of the investment on the part of the investors had doubled. They had put up originally \$200 million. We had then called on them from time to time in rights offerings, and they had put up another \$300 million. So they had made an investment of \$500 million in First American.

In 1988 an analysis demonstrated to us that the company was worth \$1 billion, a minimum, at that time. Now interestingly enough, that was our evaluation. We discussed that at the time. They agreed over there that the value had gone from \$500 million up to \$1 billion. The amount that we had in mind for the unique service that we felt we rendered, was minimal compared to the \$500 million.

Now, in order that you understand the next event that took place, in the spring of 1990 we get a letter from Hugh McColl, head of NCNB. And he says, in effect, we have been investigating First American for some time, and we're interested in it and we would like to acquire it.

And he said that in order, Mr. Clifford, to show you that we are serious about it, I would say, even in this letter, I am willing to offer you \$1 billion for First American. So it merely confirmed the estimate that we'd made.

When Hugh McColl said in his first offer he would pay \$1 billion, I immediately translated that in my own mind that he must have about \$1.3 billion or maybe even \$1.4 in mind. So that was the value that was offered. So that as you look at it from the standpoint of those figures, if the profit that they recognize there—that we felt and they felt we have gotten from them with our efforts, and then the amount that would be our return on that, it came to less than 1 percent of what we had produced for them.

Senator BROWN. I wanted to go back a moment if I could and finish the outline of the loans. As I read the documents, on August 14, 1987, there were additional loans that apparently were designed to cover both the additional stock purchase made in that period and the interest apparently on the previous loan.

Mr. ALTMAN. I don't think so, Senator.

Mr. CLIFFORD. No.

Senator BROWN. Could you enlighten us as to what that was, then?

Mr. ALTMAN. There was a second loan that was made in the summer of 1987, if that's your reference. And the amount of the loan was the exact amount of the cost of the stock that we purchased, to the dollar. So all the money that we borrowed, we used to buy the stock, and we placed that stock as collateral. At the same time, we were out of pocket the approximately \$1 million in interest that we paid on the first loan. The interest was not funded by BCCI.

Senator BROWN. Where did the money for the interest come from? Did you borrow the money for the interest payment?

Mr. CLIFFORD. Out of our pockets.

Senator BROWN. Out of your own pockets?

Mr. CLIFFORD. That's right.

Senator BROWN. Well, let me suggest to you what I believe the facts suggest. Perhaps you can set me straight. I mean, as I look at this, we have stock purchases that are financed with 100-percent loan to value that are totally nonrecourse, and that you are not liable for the amount that is involved. The stock is held by BCCI, and the loans, interestingly enough, at least this latest loan, was written August 14, 1987, and due August 15, 1987.

Mr. CLIFFORD. That is a typographical error.

Senator BROWN. Maybe you can help us with that. What should it have said?

Mr. ALTMAN. I believe it was due 12 months later.

Senator BROWN. Twelve months later.

Mr. ALTMAN. I believe the date was a mistake.

Senator BROWN. Looking at the first loan, it was held in default for several months, and I put it to you, if you were examining this as counsel for someone, wouldn't you basically call yourself a nominee for BCCI, to receive the stock and not hold it and not have liability?

Mr. ALTMAN. Under no circumstances would we consider ourselves nominees for BCCI in the holding of the stock. A couple of points, Senator, as the Federal Reserve has testified, there was nothing prohibited or impermissible about our borrowing money from BCCI and our pledging the stock, and putting up the stock as collateral does not give BCCI ownership or control over that stock.

I would give you an example. If you go to a bank and you are buying a house and you borrow the money, say you get 80- or 90-percent financing and you borrow the money, you wouldn't say that the bank owned the house. You own the house. Now if you go into default on your loan the bank has certain rights to foreclose and get ownership. That did not happen here.

You say that the loan went default, that is incorrect. The loan did not go into default. Prior to the time of the maturity of the first loan, we had the understanding that I have described to you, and the second loan had not even come due.

At all times we had legal ownership to that stock, at all times we had voting rights to that stock, and we voted the shares every year at the annual meetings of the company. BCCI never had any ownership or control and it has never been so alleged by anyone.

Senator BROWN. A couple of thoughts, Mr. Taylor's testimony is frankly this: The Fed received explicit commitments from the investors and their representatives that the acquisition was being made with the investor's own funds and that BCCI would not acquire shares or finance the investors.

Mr. ALTMAN. I think we have explained, that related to the tender offer in 1982

Mr. CLIFFORD. Right.

Mr. ALTMAN. And Mr. Taylor has so testified.

Senator BROWN. Well, in terms of being in default, at the least the documents themselves indicate that it was in default, that it was not paid when due. Is there something missing here that we are not seeing?

Mr. CLIFFORD. Yes, there is something there, but you have seen it. There language in there that indicates that if at the due date the matter is not paid, then plans will be made to rollover the stock.

Mr. ALTMAN. That is set forth in the same document, paragraph 3, BCCI shall assist in refinancing or shall rollover the note. It is right in the loan documents that you were just referencing.

So the loan never went into default, sir.

Senator BROWN. I think what you have to do is look at the substance of the transaction.

Mr. ALTMAN. We agree.

Senator BROWN. And it appears to me, the substance of the transaction was that you got the title to the stock without putting up a single penny of your own money and suffered no loss whatsoever if the stock dropped in price, and did not have possession, apparently BCCI had possession of the certificates.

Mr. CLIFFORD. Only as collateral. Title did not pass.

Senator BROWN. What element is there here that puts liability on you for this stock purchase? Where is your liability?

Mr. ALTMAN. We have said, Senator, that it was a nonrecourse loan. When you have a nonrecourse loan that doesn't mean you are not liable on the loan. You are liable on the loan. We had every intention to repay the loan and we did repay the loan and we repaid the loan with interest.

A nonrecourse loan means simply that in the event you default on the loan, the lender cannot go seize your house or your other assets. You and the lender have agreed on the collateral which the lender must look to satisfy that obligation.

And nonrecourse lending is common. It is done all the time. I have been in other transactions in which nonrecourse lending is utilized. So it is not——

Senator BROWN. Did your bank ever make 100 percent to value nonrecourse value on stock?

Mr. ALTMAN. I am not aware of any such loan.

Senator KERRY. In effect, this loan couldn't be defaulted on in reality? The reality is you couldn't default on this loan because by the agreement the interest——

Mr. ALTMAN. Would accrue.

Senator KERRY. Correct. So there was default impossible.

Mr. ALTMAN. What it provides, Senator, is that in the event you do not repay the loan, BCCI is to assist you in refinancing the loan, and in the event——

Senator KERRY. They held the stock.

Mr. ALTMAN. Or they can seize the stock itself.

Senator KERRY. I understand that. But I still am troubled, and I just want to say to you, by a larger piece. You had a subsequent agreement, I guess, a purchase and sale agreement on your stock because you continued to hold stock, correct?

Mr. CLIFFORD. Yes.

Mr. ALTMAN. Yes, sir.

Senator KERRY. And you made an agreement on this stock, I believe, now maybe I am wrong and this doesn't apply to that stock, but I read it as applying to the stock you hold of CCAH. This is document No. 29.

In document No. 29 there are two agreements, one between Mr. Clifford and BCCI and the other between Mr. Altman and BCCI, and in both of them, you say that in the event the seller owns any shares of CCAH at the time of his death, seller hereby agrees to sell and buyer hereby agrees to buy all of said CCAH shares for cash at a price of \$2,310 per share which currently represents seller's average cost per share.

So in effect your estate would be the recipient of \$2,310 per share, correct?

Mr. ALTMAN. If you were still holding any stock, yes, sir.

Senator KERRY. If you were holding any stock.

Mr. ALTMAN. Right.

Senator KERRY. But you made that agreement with BCCI and I don't understand why BCCI would be the beneficiary of CCAH shares at the time of your death. Why wouldn't CCAH shareholders have the first option to purchase?

Mr. CLIFFORD. We weren't in touch at that particular time with the other CCAH shareholders. That is a group of Arabs that are in the Persian Gulf. I am the one who came up with this thought because again, considering about what would happen. If I die, and there is stock in my estate and there is no market there then that creates a problem again.

Senator KERRY. I understand that—

Mr. CLIFFORD. I approached Mr. Abedi about that and said, excuse me, Mr. Naqvi by that time and said would you agree to take that stock off my hands? He said, I would agree to take it off of your hands if you set the price at a low enough figure. So you see that it is set at book, and there are these two, we have discussed that for some time, there is the book level and then there is the trading level.

So from their standpoint, they were assured they could always get book for it, and they might do a good deal better than book. I think he looked upon it as an opportunity ultimately of making a substantial gain.

Senator KERRY. Well, it raises the question of whose interests you representing, the shareholders of your bank or Mr. Abedi and BCCI who would be enriched ahead of them. I mean, if the shareholders can't get a first shot at your shares and you are sort of offering them off to BCCI, it seems to me, BCCI is being enriched either in the place of their nominee shareholders or instead thereof.

Mr. ALTMAN. Senator, maybe I can assist you, so that you understand this more fully. We are talking about stock, as we described, that has an uncertain market and an uncertain value. Now this arrangement is made very shortly after the time we sold stock at \$6,800 a share. So it gives you some idea of how uncertain we thought the value of the stock was and how uncertain we thought the market or liquidity was for the shares because in the event of death, we were prepared to accept—

Senator KERRY. You just testified about a little while ago about the extraordinary growth, how it was going up every year, and how the bank was worth \$1 billion and how it could be sold and this was a great asset. Why this uncertainty?

Mr. ALTMAN. We believed that the value of the company, if it were to be sold was in the neighborhood of \$1 billion to \$1.5 billion. But if we were to sell our portion of the stock which was approximately one percent of the total outstanding, there might not be a buyer for it at all.

And this was the point that our New York counsel was making to us. Second, you ask, why do we go to BCCI? The point that was made to me by New York counsel is, you can't make these kinds of arrangements with Kamal Andam or one of these Arabs' shareholders because you need someone—you need an institution.

You need a place where you can go in the event you have to enforce this agreement. One of the shareholders can die. They can be

unavailable. This is the kind of arrangement that should be entered into with an institution, and that is what led us to go to BCCI to effect the arrangement.

Now the result of this transaction, if it were to occur, is that there is no restriction on us selling our stock. We may end up with no stock in the event of death or we may end up holding some shares and given the situation today, it looks more likely than not that we would own stock of whatever value.

But in the event that the shares remained in the estate, this created a market. Now from our standpoint, we were prepared to forego any potential profit in the stock, even though we thought the company would continue to appreciate in value, because we wanted to assure liquidity, particularly in the case of Mr. Clifford.

From the standpoint of BCCI it made excellent sense because they knew these shareholders, they had access to them, and they felt they had this ready market for the stock. So if they bought the stock from us at \$2,300, they felt they could turn it around at a profit, that was the expectation in this arrangement, and we didn't have that same access or same assurance.

Senator KERRY. Let me just ask counsel, I am just concerned about the time question, we are going to break for lunch before too long and I know you wanted to have a solid interval there which we are delighted to provide. Do you want to continue for another say 15 or 20 minutes and then break?

Mr. BENNETT. At your convenience, sir.

Mr. CLIFFORD. I would like to, so that we know that we are making progress.

Senator KERRY. Mr. Altman, if I can just direct you, this is something that I know came up in the House a little bit, it still has left a few questions and I want to ask, document No. 30—

Mr. ALTMAN. Thirty?

Senator KERRY. This is the letter, somewhat argued about now, that you were sent by Mr. Ryback from the Federal Reserve in which he said to you, an issue was raised on whether any of the financing, this is December 13, 1989.

Mr. ALTMAN. Yes, sir.

Senator KERRY. At this time in 1989, the Fed expresses a specific concern about whether any of the financing of the equity investment, it is referring back now to the letter that we referred to earlier. We sort of began with the original standard of operating here.

Mr. ALTMAN. Right.

Senator KERRY. And the original standard of operating was the notion that there would not be a mix of the financing, business management, et cetera. This letter now says that, it recites that, it reasserts that principle and says in 1989, according to the Fed: it was indicated at the time, referring back to the original takeover, that the individual investors had substantial funds and only a modest portion of the total investments would be financed. Further, any personal borrowing by the investors would come from financial institutions unaffiliated with BCCI.

I know you have been through this somewhat, I just want to make sure people understand what I am asking. The next paragraph says: In order to clarify the situation, it would be helpful if you would provide information on any loans extended to the origi-

nal or subsequent investors, either directly or indirectly by BCCI or any of its affiliated organizations. The information should include all loans extended to the investors, regardless of purpose, whether they are secured or not and in what manner, et cetera.

Now I know you explained to the House saying that you didn't think that that applied to you because your loan had been paid off. Is that accurate?

Mr. ALTMAN. Yes, sir.

Senator KERRY. In the letter you got back from—to you from Mr. Naqvi, as a consequence of, I think your forwarding this or forwarding information about it, Naqvi says to you, he says, I can't provide you with confidential information about our customers' financial arrangements, which begins the process of evasion to you, incidentally, not by you but to you.

He then says: We can confirm that none of the shareholders involved in the acquisition had any personal loans. That is just not true, and we have learned that: Of course no, stock of CCAH or Financial General was placed as collateral for these loans, we know that that is a lie on its face. It is a lie incidentally to you, by him.

And then it says: You should be aware—but he starts out his letter to you saying: I am writing in response to your inquiry concerning whether there are any loans to any of the shareholders in connection with the acquisition. But the letter from Mr. Ryback to you and he has indicated to us, that he was not looking just for the acquisition, and in fact, his letter is very clear.

It said: Will you provide us with information on any loans, original or subsequent investors. My question is why you would have not advised the Federal Reserve that there were in fact subsequent investors, namely you.

Mr. ALTMAN. That was the question, Senator. Let me see if I can help you with your understanding of it.

Senator KERRY. First of all, just tell me, how do you read that into the original question, I mean, into his original letter? Does his original letter say original or subsequent investors?

Mr. ALTMAN. Yes, sir, the way you read the original letter is correct, but there were subsequent communications, oral and written, which will confirm what I am trying to explain to you.

Senator KERRY. Is there any written communication from the Fed that altered that? Did the Fed alter that?

Mr. ALTMAN. There was written communication given to the Fed which altered that.

Senator KERRY. That is the memorandum that you wrote?

Mr. ALTMAN. And more than that, there were other documents that were provided.

Senator KERRY. Have you provided those to us?

Mr. ALTMAN. Yes, Senator, I believe we have.

Senator KERRY. Do you know which ones they are, Mr. Bennett? I am not familiar with them.

Mr. BENNETT. I think Mr. Altman will be going through them now.

Senator KERRY. Fine.

Mr. ALTMAN. Mr. Ryback, in December, had submitted to me a letter that is rather broadly worded and you have very accurately

read it into the record. When I received the letter I spoke to Mr. Ryback and indeed, I spoke to him more than once.

And Mr. Ryback explained to me what it is that he was seeking by way of information. I might note that the first paragraph of Mr. Ryback's letter I believe is the matter relating to the tender offer. Then he goes on his second paragraph and deals with the subject of any loans made then or subsequently.

Now when we received this letter and spoke to Mr. Ryback, I pursued the matter in two ways. I pursued the matter with BCCI directly and I pursued the matter with our shareholders and then I provided the Federal Reserve at various times with the information that we had learned.

Mr. Naqvi's letter that you have referenced indicates that BCCI did not finance the original acquisition. I don't have access to the documents. I accept what you say, that that is an incorrect statement, but that was the representation that was made.

He goes on to say in that letter that you should be aware that in the years following the acquisition, some of the persons who are on the list of shareholders of CCAH have from time to time borrowed from BCCI. He indicates there are subsequent borrowings. He doesn't detail them, because he won't give us that information for the reasons he describes in his letter.

Now during this period, 1989 and into 1990, we started to receive reports that were disquieting reports about the issue which you are now investigating. I think I have testified before the House that we heard about this conversation of Mr. Awan, the taped conversation of Mr. Awan in which he makes reference to nominee arrangements, and we had looked into that matter. We had gotten that transcript. We had spoken with Mr. Awan's counsel. We had interview with Mr. Awan himself. I didn't personally but others did and reported to me.

The Fed has also looked into that, and Mr. Awan has said that he didn't have any information. It was a corporate rumor that he had heard. We had pursued it in other ways as well. We had pursued it with the shareholders directly in some instances, and we had pursued it with the most senior management of BCCI.

I pursued it, other attorneys pursued and we pursued it aggressively. We received information back that we thought at the time was credible. In this time period, the issue of lending arrangements arose, and the matter came up about what BCCI's practices were and actually, before this letter, it is my recollection that an invitation was extended to Mr. Ryback to go and meet with the senior management of BCCI so that he could ask any questions directly that he might have.

And Mr. Ryback indicated that he didn't think that was indicated and that invitation was declined. When we received this letter, we then pursued it and we heard these reports that there were large loans out there, that the loans were secured by stock, and we reported that back to the Federal Reserve.

We did not necessarily think that the lending was impermissible for the reasons that Mr. Corrigan and Mr. Taylor have stated. It was not impermissible to borrow, even borrowing secured by the stock. But we gave the Federal Reserve the information we had obtained.

There is a document which has been provided to the committee and it is marked: note to files, BCCI, dated January 9, 1990. I make reference to this document because you need not simply accept—

Senator KERRY. Is that the May 8, 1990 letter?

Mr. ALTMAN. No, sir, it is an earlier one.

Senator KERRY. OK.

Mr. ALTMAN. You need not accept merely my representations about these conversations with Mr. Ryback, this is a note that Mr. Ryback himself wrote, that is my understanding, to his files and let me read to you the pertinent parts: Robert Altman called in response to my letter concerning loans from BCCI to shareholders of Financial General. Mr. Altman related that he talked to officials in BCCI Luxembourg and they are in the process of pulling together the information we need.

He states that BCCI told him that none of the shareholders of Financial General directly financed the acquisition with loans from BCCI. However, in subsequent years, some of the shareholders borrowed substantial funds from BCCI because of a slowdown of their business interests in the Middle East and the fact that Financial General was not paying dividends. Some of the borrowings may be supported by a pledge of Financial General stock, he was not aware of the payment history on these loans.

I also talk about a potential merger. So I told Mr. Ryback within a couple of weeks of receiving his letter by his document, that we had heard there were large loans out there but we didn't have the information about it.

Now Mr. Ryback, as I say, explained to me the focus of his inquiry, and the focus of his inquiry was twofold. Primarily, he was interested in ensuring that the original representations that had been made were accurate; that is, the representation that BCCI was not financing the purchase of shares in the tender offer. That representation had been made, it was made in that footnote that we have described in the application, and he wanted to assure that that had been observed.

That was his primary focus. He had a secondary interest however and the further interest was that he wanted to know if there are any current loans outstanding to these shareholders, personal loans. And the reason that had relevance is because of the issue of controlling influence under the Federal statutes, whether a lending institution can get a controlling influence by reason of large outstanding loans.

So he originally writes a letter that is very broadly worded in December. I report back to him what I have heard about there being large loans, about there not being any financing of the original tender offer. That is the representation that was made, and I then proceed to send letters to the various shareholders.

Now I say that I indicated that Mr. Ryback was not interested in certain kinds of information, even though his original letter would seem to call for it. Mr. Ryback wanted these two specific kinds of information, and I had also indicated to him that to comply literally with this letter, I am told, would be burdensome, to get every loan ever made to any investor by BCCI. And that is why he focused his inquiry as the specific information that he needed for his purposes.

On March 9, 1990, I write a letter to shareholders, individual letters and I state the following: We have been asked by the staff of the board of governors of the Federal Reserve about representations made by the investors who acquired First American. At the time the board was advised that the acquisition of the company would be primarily from personal funds and would not be financed by BCCI.

BCCI has recently written a letter confirming the accuracy of these representations to the board, I say this to the shareholders, they are all on notice as to what is happening.

Then I go on: The board's staff has requested current information on loans extended to First American investors by BCCI, including stock pledged to secure any such borrowings. As I said, the board is not interested in certain things.

Then I go on at the conclusion of the letter and as I say, this was provided to your staff, it says: If you have no personal loans at present from BCCI relating to First American, you may simply write us a short letter to that effect.

I make very clear by the language, if you have no personal loans at present from BCCI.

It is a letter dated March 9.

Senator KERRY. It is a letter you wrote, right?

Mr. ALTMAN. It is a letter I wrote to shareholders and signed and the language I am reading, the entire letter, the language I was just reading was the concluding paragraph.

Senator KERRY. Is this in what you provided? I don't think we have that or I don't have that. Do you know where that appears?

Mr. ALTMAN. Would you like my copy?

Senator KERRY. That is all right, if I can get a copy. You have read most of it.

Mr. ALTMAN. I believe it was provided to you, but in any event, it makes clear that this was our understanding in real time, this was our understanding of what they were asking, and we in turn were saying to the shareholders, do you have any outstanding loans? Not, did you ever have loans that have been repaid.

The Fed wants to know, we say to the shareholders, about the original financing and they want to know about any loans that are outstanding. Now interestingly—

Senator KERRY. You didn't sense from the Fed, Mr. Altman, I guess these things are always subject to interpretation, obviously, and I am not trying to force you to interpret something differently than you did, but I find it—I guess strange, that they bring up the issue so boldly in the front of the letter about the original concern and that original concern sort of ran throughout their regulatory effort.

Now you say to me, Mr. Ryback had a different interpretation in conversations. But I do know that Mr. Ryback has no memory of altering his original request.

Mr. ALTMAN. Well, Senator, if I might, the letter that I just read to you was a letter that was given to the Federal Reserve, so it is—I talked to Mr. Ryback, I tell him what I have heard. I am told there are no loans relating to the original financing. I am told there are large loans out there that we don't know what the information is, we just understand there to be large loans.

And I am told by him what we are interested in is current outstandings. What is the situation regarding current outstandings? I confirm that in writing in this letter that I am describing and then we give this letter to the Fed to show the Fed the information we are seeking to elicit.

Now I am sure if Mr. Ryback says he doesn't recall it, I accept that, but this letter will be in the files of the Fed which makes very clear the inquiry we were making in response to the Federal Reserve's question.

Senator KERRY. I have no question but that that was your interpretation and that is the way you went back to them. The question in my mind partly is where the Fed went in terms of their original inquiry and because the original inquiry I think means one thing.

That you had those conversations, or that you in fact made those representations is on its face absolutely clear and accepted. The only question is, was it full disclosure? You knew at the time—would it have been that difficult to list the people who had BCCI loans outstanding for the purchase of CCAH shares?

Mr. ALTMAN. I didn't have the information, Senator. I knew that Mr. Clifford and I had had loans which had been repaid a couple of years earlier, but that wasn't responsive to his inquiry. We get a letter, we talk to him. What is it that you want? He tells us and we try to get him that information and I confirm in writing that that is what we are trying to get for you.

Now you also have a memorandum dated May 9, 1990, a meeting we had with the Federal Reserve.

Senator KERRY. I do, I have that. Who wrote that memorandum?

Mr. ALTMAN. The memorandum was drafted by one of my partners, Mr. Leshner. I also reviewed it and on the last page, Mr. Tuttle's name appears, so I assume he also reviewed it. We were all three at the meeting, and this was a memo to the file to summarize and to record what was said at that meeting.

Senator KERRY. Just to put this in context, this May 8, 1990, memo was written—you cite the *Regardies* article and the *Wall Street Journal*, and this is just about at the time, was it not, that Price Waterhouse had had a meeting with Massihur Rahman in London and had made public to him and others the report that they had at that time.

I think it was about 1 month earlier or so, regarding all the inaccuracies and problems that were appearing at that point within BCCI.

Mr. ALTMAN. That was not made available to us and in fact, Price Waterhouse did not, when there was an inquiry made of them at that time, they didn't even mention that report. So we were unaware of this Price Waterhouse April 1990 report.

Senator KERRY. Let me inquire, Do you have more you want to ask now?

Senator BROWN. Just a couple of quick ones, and I know we are going to come back this afternoon.

To put some sort of cap on this, did you disclose to the Federal Reserve the financing you had received from BCCI?

Mr. ALTMAN. We disclosed it subsequently. We didn't disclose it in response to Mr. Ryback's letter as it was nonresponsive.

Senator BROWN. It was nonresponsive to this letter or nonresponsive to what you had discussed with him after this letter?

Mr. ALTMAN. When I received this letter I talked to Mr. Ryback to understand the information that he wanted us to collect, and he explained that to me. He explained that he was primarily interested in ensuring that BCCI did not in fact finance the original tender offer in 1982. He said, I have a secondary interest. I don't want a lot of volume of information. I don't need a lot of detail.

The second thing I need is if you can get information on any loans that are today outstanding. So it was not a question of withholding information that we could have provided to him. It was, this is not what he is interested in and I understood the regulatory objective that led him to make the inquiry.

So we say to him, we are told there are no loans, there was no financing of the original tender offer, and we get him confirmation of that, whether accurately or inaccurately and we reported to him orally, and he makes a memo to the file about it.

We tell him, we hear there are large loans out there, but we don't have any of the details. All we can tell you is we hear they are there. He says, fine. The confirmation that he is seeking, only current loans, and therefore our earlier financing was not relevant is indicated by the letter I have just described to you which was given to the Fed, that says, in response to your letter.

This is the information we would ask the shareholder to provide.

Senator BROWN. Did you feel comfortable in not disclosing it?

Mr. ALTMAN. It seemed immaterial to me. I didn't think anything of it. It was a loan that was made. It was a loan that was repaid. I didn't attach any significance to it. We had reported the fact that we had purchased stock every year to the Fed. They were aware of it—

Senator BROWN. Given the fact, let me just ask about that again.

Mr. ALTMAN. Sure.

Senator BROWN. Given the fact, and I apologize to my colleague, but given the fact that you had had these articles which you referenced in the memo yourself and there was then circulating a certain amount of innuendo regarding the bank and there—

Mr. ALTMAN. There was.

Senator BROWN [continuing]. And there was a significant amount of, sort of, hey, First American is owned by BCCI and so forth. Is it not fair to say that had you disclosed that you had significant loans outstanding, that would have simply excited that process and interest significantly?

Mr. ALTMAN. Senator, two points. One, we didn't have loans outstanding. The loans were repaid a couple of years earlier. So it had nothing to do with this particular allegation insofar as we were concerned.

And second, as I think my memorandum indicates, Mr. Ryback subsequently did not even seek us to pursue information about current outstandings. We tell him, we understand there are loans that were made subsequent to the original acquisition, and as I indicate in the memorandum dated May 8, I will read to you a sentence from that meeting.

This is what he is telling us, and we are trying to be responsive. We weren't trying to hide the fact that we had loans. It just didn't seem to be of any particular moment.

Mr. Ryback stated, I am quoting: "That his limited concern was only to inquire as to any BCCI financing of the original acquisition, in view of information supplied him by foreign supervisory authorities."

We agreed to get permission from Mr. Naqvi to release the BCCI letter, the letter where he says there was no lending, so that they could check that. And then, I write Mr. Ryback a letter on June 11 and I say to Mr. Ryback: As a followup to our meeting, this is simply to confirm that Mr. Naqvi, "has advised he has no objection if the Federal Reserve wishes to show his January 31, 1990, letter addressed to me to other supervisory authorities."

Then I go on: Again, if you wish us in the future to seek any additional information concerning any financial arrangement between First American's shareholders and BCCI, please let us know.

So at that point, even the current information as to current outstandings, they had indicated they didn't care if we pursued it and that inquiry, as far as the Federal Reserve was concerned lapsed.

Now two points: The first, from the Federal Reserve and from our standpoint, from the standpoint of both the Federal and ourselves, frankly, we didn't think there was anything to these allegations about nominee arrangements, et cetera.

So the fact that the Federal Reserve did not seem particularly concerned or excitable about reports that there were large outstandings didn't strike me as peculiar. We did personally continue to pursue the issue. We had talks with the shareholders and talks with BCCI management and in the fall of 1990 when we got this report about Mr. Hammoud and the possibility, the dispute as to whether he had large loans outstanding relating to this, because it related to this earlier inquiry, we provided that to the Fed when the information came to our attention.

I am talking now about the Hammoud letters we were earlier discussing this morning. So whenever we got this information, we submitted it to the Federal Reserve so that they would now what we knew.

Senator KERRY. Senator Brown, do you have anymore?

Senator BROWN. Mr. Chairman, I just wanted to enter into the record some figures that I think relate to our previous conversation. The loan that was taken out in July 1986 was at the LIBOR rate and the LIBOR rate at that time was 6.75, it does appear that that is the rate of interest that was paid the following year.

That particular rate, the LIBOR rate, the 6.75 percent interest was $1\frac{1}{4}$ to $1\frac{3}{4}$ percent below prime in this country at the time and at the point it was, the note was due it was about $1\frac{1}{2}$ percent below prime. So it was significantly below U.S. prime, not comparable with it, but significantly below U.S. prime at the time.

Also, in checking with the CRS, the tax law division, they indicate the applicable Federal rate was below or was above the rate, the 6.75 rate. Thus, the Internal Revenue Code provisions, the feeling is, would apply. In effect, the loan rate, the rate on the loan was below the applicable Federal rate, and therefore, I think sig-

nificantly raises a question with regard to tax liability in this hearing.

Mr. ALTMAN. We would disagree with that conclusion, Senator. If I might also note for the committee on the subject we were just discussing about Mr. Ryback, there was a letter that I also wrote to Mr. Ryback that I did not earlier reference. It is dated February 5, 1990, and in that letter I state, quote: "My understanding that your primary interest is the current state of borrowings from BCCI for many of the First American Investors."

So this was a letter I wrote to Mr. Ryback to that effect. Could you hear me, Mr. Chairman?

Senator KERRY. Yes. Let me just say that I think we have covered a significant amount of territory. There are some areas that we definitely have to go into this afternoon.

I appreciate your patience. What we will do is, according to our agreement, I think we will recess for a 2-hour period. We will come back here at 2:45 and we stand in recess until 2:45 p.m.

AFTERNOON SESSION

Senator KERRY. The hearing will come back to order. I want to come back and remind you that you stand sworn already before this committee today.

Let me just announce that we are going to have normal Senate interruptions here in a little while. I think we have a string of back-to-back votes sometime around 3:30 p.m., and what we will do is try to hang in here through the better part of the first vote and then go over and take a short recess which I am sure you won't object to. So we will proceed from there.

There are a number of areas yet to go through and I would like to continue to do that. Some of them raise some tough questions, but on the other hands, you have both proven yourselves capable of dealing with tough questions. I hope that this is proceeding in a way that everybody feels is fair and sensitive.

Turning your attention now back, Senator Brown has sort of inquired about the stock transaction and I think what we are dealing with here is not necessarily a single instance in any one place that leaps out and says, hey, something wrong happened, but the question of the larger picture that people are looking at, sort of a conglomerate effort

I want to assure you, the committee intends and we want to get some questions in generically about this, about the lessons to be learned, about the responses, about what this does or doesn't represent, about the conclusions that you both draw as a consequence of what has happened. Some of those conclusions I know are very obvious.

Let me raise one issue and this has been a problem for the committee since day one, and I think you know that because we expressed that to you previously, and that has been the production of documents and records.

And this may be something that counsel wishes, your counsel wishes to address, Mr. Bennett, but we have sought a series of documents and we have sought their release now from the liquidators who are sort of BCCI at this point. And some of those documents, it

has been asserted by you because you are the attorneys for BCCI are protected by attorney/client privilege.

We wrote requesting some of these documents, that you be released from the attorney/client privilege by the liquidators who represent BCCI. The liquidators in turn have requested from you that they see some documents in order to determine whether they want to release these documents.

And we have a list of some 20 documents. We received a letter from Mr. Bennett on October 23, 1991, a copy of which will be included in the record.

[The information referred to follows:]

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October 11, 1991

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Chairman
Subcommittee on Narcotics, Terrorism, and
International Operations
Committee on Foreign Relations
United States Senate
Washington, D.C. 20510-6225Re: Messrs. Clifford and Altman

Dear Senator Kerry:

On behalf of Clark M. Clifford and Robert A. Altman, by this letter we are providing documents in response to your letter request dated September 18, 1991. That request covered a wide range of matters over the past fourteen years. In responding to this request, we have made good faith efforts given the time constraints imposed to identify responsive materials from the voluminous files relating to these matters.

For your convenience, we have restated below each separate request set forth in your letter, followed by our responses thereto. The referenced material is contained in the separate bound volumes appended hereto.

1. Request: "On page 21 [of your prepared testimony], you state that 'Before accepting the offer [to serve as Chairman of First American] however, a fundamental agreement was made with the shareholders on the issue of authority.' Please provide the subcommittee with any written documentation of this agreement."

Response: The specific agreement referenced between Sheikh Adham and Mr. Abedi (acting on behalf of the shareholders) and Mr. Clifford, that he would accept the Chairmanship on the condition that he (and the Board of Directors) would have complete authority over the management of

First American, was an oral agreement. To our knowledge, there is no written documentation of this understanding.

During the course of the April 23, 1981, hearing before the Federal Reserve, however, the investors who appeared affirmed that their investment was passive in nature, and that they intended to leave the management of the bank to Mr. Clifford and the American Directors. A copy of the transcript of this hearing is appended hereto at Tab 1; we direct your attention for example to the investors' testimony which appears on pp. 58-59, 65, 67, 68 and 118 of that transcript, as well as to Mr. Clifford's statements which appear on pp. 39-40, 96, 132-134 and 162. The investors' intention to vest control of the bank's operations in its American Board of Directors was further evidenced by their execution of a five year voting agreement pursuant to which the late Senator Stuart Symington, the Vice Chairman of the Board until 1988, was given authority to name a voting representative for holders of 60% of the outstanding stock of CCAH. A copy of the original agreement, and a superseding agreement in July 1980, is also appended hereto at Tab 1.

2. Request: "On page 22 [of your prepared testimony], you state 'the law firm of Clifford and Warnke was retained, at the express request of the shareholders to serve as general counsel to First American.' Please provide the document to the Subcommittee."

Response: The shareholders' request that Clifford & Warnke serve as legal representative to First American is memorialized in Sheikh Adham's letter to Mr. Clifford dated March 8, 1985, appended hereto at Tab 2.

3. Request: "On page 44 [of your prepared testimony], you state that 'unlike the alleged sham loans to nominees, our borrowings were real obligations, fully documented, and were repaid over three years ago.' Please provide the Subcommittee with the loan documents."

Response: Documents responsive to this request are appended hereto at Tab 3.

4. Request: "On page 46 [of your prepared testimony], you state that in response to allegations that in 1989 and 1990 that BCCI owned First American, we made prompt

inquiries to determine whether there was substance to these allegations.' Please provide the Subcommittee with all written inquiries made concerning this issue and all responses thereto."

Response: Documents responsive to this request are appended hereto at Tabs 4 and 5.

5. Request: "On page 47 [of your prepared testimony], you refer to several conversations with 'top management of BCCI' concerning alleged ownership of First American. Your oral testimony elaborated: 'We then went to the top management of BCCI. I went together with some of the other defense attorneys who were representing BCCI. I might say that we pursued the issue rather aggressively, and all of us believed that the denials which were emphatic were credible.' Please provide all documents that reflect your inquiries to BCCI management regarding the allegation that First American Bank was owned by BCCI, and their responses to you."

Response: Documents responsive to this request are included among those appended hereto at Tab 5. Other documents responsive to this request are protected from disclosure by the attorney-client and work-product privileges.

6. Request: "On page 48 [of your prepared testimony], you state that counsel made a 'private inquiry of the accounting firm of Price-Waterhouse' concerning alleged ownership of First American by BCCI. Your oral testimony elaborated: 'We also had discussions with Price Waterhouse as kind of an independent check. . . . Price Waterhouse advised counsel that there was no evidence in the record that BCCI had financed the original acquisition or had an ownership interest in the property.' Please provide all documents that reflect your inquiries to Price Waterhouse, and their responses to you."

Response: The referenced inquiries to Price Waterhouse were conducted orally. One such reference, however, is contained in the memorandum dated May 8, 1990, which is included among the documents appended hereto at Tab 5.

7. Request: "Also on page 48 [of your prepared testimony], you state that you 'attempted to contact all CCAH shareholders to advise them of the allegations and to request an opportunity to discuss the charges directly with them.' In your oral testimony, you elaborated, 'We pursued this [the issue of First American's ownership by BCCI] in direct discussions with the shareholders, and we pursued it increasingly aggressively as the allegations became increasingly in focus.' Please provide all documents that reflect your inquiries to the shareholders, and their responses to you."

Response: Documents responsive to this request are appended hereto at Tab 4.

8. Request (referencing oral testimony): "Mr. Clifford: 'We'd already checked carefully into BCCI and found that they constituted a respectable, credible operation. Now we wanted to find out more about the investors. And we did find out quite a lot about them.' Please provide all documents that reflect your inquiries into BCCI and its investors in the period 1978-1981."

Response: The investors provided to counsel certified financial statements, bank references, and references from major corporations, which documented their ability to purchase First American. Responsive materials we have located to date are appended hereto at Tab 6.

Certain of the investors and certain BCCI officials also testified at depositions in the lawsuit filed by FGB, and certain of the investors appeared at a special hearing before the Federal Reserve Board in April 1981. A copy of the transcript of the April 1981 hearing before the Federal Reserve is appended hereto at Tab 1. The transcripts of the referenced depositions are quite voluminous, but we would be pleased to make them available for your review should you so desire.

Messrs. Clifford and Altman also obtained BCCI's annual reports for the time period in question. They also reviewed an article which appeared in 1977 in The Economist, and press releases issued by Bank of America. These documents are also appended at Tab 6.

9. Request (referencing oral testimony): "Mr. Clifford: 'We asked that counsel in the case speak to Mr. Awan and his counsel and they did.' Please provide all documents that reflect your inquiries to Mr. Awan and his counsel, and their responses to you."

Response: Inquiries to and interviews of Mr. Awan and his counsel were conducted orally.

10. Request (referencing oral testimony): "Mr. Altman: 'The investors . . . advised us they wanted to keep BCCI, as their investment advisor, informed of the financial progress of the company.' Please provide all documents that reflect statements by the investors as their desire that you keep BCCI informed of the financial progress of First American."

Response: From the outset of their representation of the individual shareholders, Messrs. Clifford and Altman understood that BCCI served as an investment advisor to the shareholders. In addition, during the course of the takeover litigation, BCCI served as the communications liaison between counsel and the individual shareholders. As a result, a custom arose whereby Messrs. Clifford and Altman regularly communicated with Mr. Abedi to apprise him of the progress of the litigation and related transactions involving the intended acquisition of FGB. Messrs. Clifford and Altman were not instructed to do so in writing.

During the course of the regulatory approval proceedings, the regulators were informed expressly that BCCI would continue to serve as the investors' commercial banker; that BCCI would continue to provide advisory and other services; and that BCCI would act as communications link between the investors and First American. Documents reflecting these disclosures are appended hereto at Tab 7. Similar disclosures were made by the investors and counsel during the course of the April 23, 1981 hearing before the Federal Reserve. A transcript of that hearing is appended hereto at Tab 1. (See pp. 54-55, 65, 67-68, 81.)

11. Request (referencing oral testimony): "Mr. Altman: 'Mr. Awan was interviewed by us. Mr. Awan, contrary to what is being suggested, had testimony to give based on what he had told us that was very favorable to BCCI. He told us

among other things that there were no money laundering practices at BCCI. It was testimony that we would very much want the Senate committee to hear. Please provide all documents that reflect your communications with Mr. Awan."

Response: Documents reflecting Mr. Altman's communications with Mr. Awan are protected from disclosure by the attorney-client and work-product privileges.

12. Request: "Please provide all documents that reflect your handling of BCCI's response to the Senate subpoena in 1988."

Response: Documents responsive to this request are appended hereto at Tab 8. Other documents responsive to this request are protected from disclosure by the attorney-client and work-product privileges.

13. Request (referencing oral testimony): "Mr. Clifford: 'I had no prior information about Kamal Adham. Sometime later I learned for some period of time he had been head of Saudi Arabian intelligence and I learned from others that in that regard our intelligence operations had a very high opinion of him.' Please provide all documents that reflect information you received from any current or past government official concerning Mr. Adham's involvement in intelligence and any policy or political matter involving any government."

Response: We are aware of no documents reflecting any such communications. We note that it is not clear even today that Sheikh Adham in fact was engaged in intelligence activities on behalf of Saudi Arabia. In this regard, the Wall Street Journal recently has reported that the "intelligence agency" allegedly run by Sheikh Adham employed only four persons, none of whom were involved in intelligence gathering activities.

14. Request (referencing oral testimony): "Mr. Clifford: 'What we did was we said to them [the federal regulators] in effect, 'if you, on your own, have investigated these individuals and you think they are qualified to own this bank, then we will represent to you that we will see that this bank is operated from within the United States and is operated honestly, with a group of top Americans, and we will vouch for the propriety of the operation of the bank.' Please provide

any documents that reflect your reliance on governmental investigations of the shareholders of First American as a predicate to your decision to become officers of the bank."

Response: In assuming their management roles at First American, Messrs. Clifford and Altman were of course reassured by the favorable results of the Federal Reserve Board's investigation of the investors, as reflected in the Board's approval of the CCAH application. They were further reassured by the investigative efforts undertaken by the New York Banking Department, as described in the October 12, 1982 letter from Mr. Alan R. Cohen to Congressman Rosenthal. The quoted testimony, however, was not necessarily intended to suggest that Messrs. Clifford and Altman relied on government investigations of the shareholders as a "predicate" for their decision to become officers of First American.

15. Request (referencing oral testimony): "Mr. Altman: 'We did talk to the Federal Reserve. We did provide them with the information that we had gathered. When we learned that there were loans to these shareholders, even unconfirmed reports, we presented that information to federal regulators.' Please provide any documents that reflect your provision of information to the Federal Reserve concerning reports of loans to the shareholders of CCAH."

Response: The documents responsive to this request are appended hereto at Tab 5. These materials demonstrate that soon after William Ryback's initial inquiry in December 1989, Mr. Altman conveyed to Mr. Ryback then-known information that responded to the inquiry. Specifically, as reflected in the Federal Reserve's files in a January 9, 1990 "Note to File" written by Mr. Ryback, Mr. Altman informed the Federal Reserve of reports that some CCAH shareholders had borrowed "substantial funds from BCCI . . . [and that] [s]ome of the borrowings may be supported by a pledge of Financial General Stock." The provision of reports and documentation relevant to Mr. Ryback's questions about the financing of the Financial General tender offer and outstanding obligations of CCAH shareholders continued through 1990 and 1991.

16. Request: "Please provide any documents that reflect any communication involving you or the firm of Clifford & Warnke, and Mohammed Hammoud, his representatives, and his estate."

Response: Written communications with Mr. Hammoud's counsel, his accountant and representatives of his estate are appended hereto at Tab 9.

17. Request: "Please provide any documents that reflect any lobbying activities undertaken by Clifford & Warnke and by any of its attorneys or agents on behalf of BCCI."

Response: In January 1990, Clifford & Warnke filed a report with the Office of the Clerk of the U.S. House of Representatives, pursuant to the Federal Regulation of Lobbying Act, registering as an agent of BCCI S.A. and BCCI (Overseas) Ltd. This registration was terminated as of April 1990. Appended hereto at Tab 10 are the referenced registration and termination forms.

* * *

We trust this material is responsive to your request.

Sincerely,


Robert S. Bennett


Carl S. Rauh

Enclosures

Nussbaum & Wald

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(202) 833-8900
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Jean M. Scott
Rima Sirote
A. Katherine Toomey
Of Counsel
Russell M. Frank

October 23, 1991

BY HAND DELIVERY

Jonathan M. Winer, Counsel to
Honorable John Kerry, Chairman
Subcommittee on Terrorism, Narcotics
and International Operations
United States Senate
Washington, D.C. 20510

Dear Mr. Winer:

We write in response to your letter of October 15, 1991, requesting that our clients -- the Commissaires of BCCI Holdings (Luxembourg) S.A., appointed by the District Court of Luxembourg, the Commissaire of Bank of Credit and Commerce International S.A., appointed by the District Court of Luxembourg, the Joint Provisional Liquidators of Bank of Credit and Commerce International S.A., appointed by the High Court of Justice in England, and the Joint Provisional Liquidators of Bank of Credit and Commerce International (Overseas) Limited, appointed by the Grand Court of the Cayman Islands -- waive BCCI's attorney-client privilege with respect to certain documents referred to in the October 11, 1991 response to the Subcommittee's document request to Clark Clifford and Robert Altman which you have furnished to us.

We are not in possession of and have not seen the documents for which you have sought a waiver. Accordingly, after receiving your request, we contacted the law firm of Skadden, Arps, Slate, Meagher & Flom, which represents Messrs. Clifford and Altman, and requested an opportunity to examine the documents which were withheld on a claim of privilege. Our purpose was to review the specific documents to determine whether a waiver of privilege was consistent with our court-appointed clients' fiduciary duties. A copy of our letter requesting the opportunity to review the withheld documents is attached. We have not yet received a response but understand that the attorneys for Messrs. Clifford and Altman are considering our request.

Because we have not to date been provided access to the withheld documents we have been unable to conduct the necessary review. Absent such a review, our clients simply cannot,

Nussbaum & Wald

Jonathan M. Winer

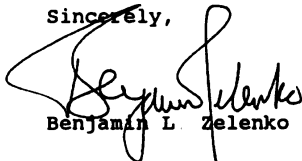
- 2 -

October 23, 1991

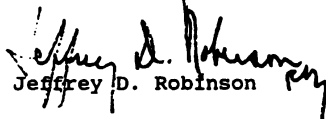
consistent with their fiduciary duties, waive privilege. Accordingly, we cannot at this time reach any judgment as to our clients' position on your requested waiver.

We are continuing our efforts to arrange a review of the documents at issue, and will advise you when that review has occurred and our clients are in a position to respond to your request. We remain prepared to cooperate with the Subcommittee and will continue to produce documents responsive to the Committee subpoena as they are available. In that regard, we note that, during its October 22 hearing, the Subcommittee used some of the approximately 100,000 pages of documents our clients have already produced.

Sincerely,



Benjamin L. Zelenko



Jeffrey D. Robinson

Enclosure

Nussbaum & Wald

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Rima Sivota
A. Katherine Toomey
Of Counsel
Russell M. Frank

October 18, 1991

BY FACSIMILE

Fran Wetzel, Esq.
Skadden, Arps, Slate, Meagher & Flom
1440 New York Avenue, NW
Washington, DC 20005

Re: BCCI: Lawyer-Client Privilege

Dear Fran:

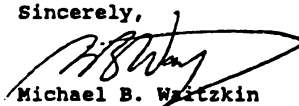
I am writing to follow our conversations over the past two days regarding certain documents that have been withheld from production to the United States Senate and the grand jury sitting in the District of Columbia by your clients Clifford & Warnke, Clark Clifford and Robert Altman upon an assertion of the Bank of Credit and Commerce International's attorney-client privilege.

As you know, this firm represents the Commissaires of BCCI Holdings (Luxembourg) S.A., appointed by the District Court of Luxembourg, the Commissaire of Bank of Credit and Commerce International, S.A., appointed by the District Court of Luxembourg, the Joint Provisional Liquidators of Bank of Credit and Commerce International, S.A., appointed by the High Court of Justice in England, and the Joint Provisional Liquidators of Bank of Credit and Commerce International (Overseas), Ltd., appointed by the Grand Court of the Cayman Islands.

On behalf of our clients, we hereby request an opportunity promptly to review the documents at issue in order that our clients may make a determination as to whether they wish to waive their attorney-client privilege.

Please advise me as soon as possible how you wish to proceed with this request.

Sincerely,


Michael B. Waitzkin

MBW/pab

SKADDEN, ARPS, SLATE, MEAGHER & FLOM

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October 23, 1991

BY HAND

Mr. Jonathan Winer
Legislative Assistant to
Senator John F. Kerry
421 Russell Senate Office Building
Washington, D.C. 20510-2102

Re: Messrs. Clifford and Altman

Dear Mr. Winer:

In response to your letter request of October 17, 1991, enclosed please find an index of documents withheld from the Subcommittee on the basis of the attorney-client privilege and/or the attorney work-product doctrine. As you requested, we have identified the documents by date, author, addressee, type, and recipient(s).

Thank you for your continued assistance in this matter.

Sincerely,


Robert S. Bennett

Enclosure

INDEX OF DOCUMENTS WITHHELD ON THE BASIS OF
THE ATTORNEY-CLIENT PRIVILEGE AND/OR
WORK PRODUCT DOCTRINE

1. **Date:** None indicated
 Author: None indicated
 Addressee: None indicated
 Document Type: Confidential Memorandum of
 Client/Witness Interview
 Recipient(s)/Distribution: None indicated

2. **Date:** August 23, 1988
 Author: Robert C. Sanders, Esq.
 Addressee: The File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

3. **Date:** September 30, 1988
 Author: John F. Kavin, Esq.
 Addressee: The File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

4. **Date:** September 27, 1988
 Author: John F. Kavin, Esq.
 Addressee: The File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: Robert A. Altman, Esq.,
 Robert C. Sanders, Esq.

5. **Date:** January 26, 1989
 Author: Robert C. Sanders, Esq.
 Addressee: Robert A. Altman, Esq.
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

6. **Date:** September 22, 1988
 Author: John F. Kavin, Esq.
 Addressee: Robert A. Altman, Esq.,
 Robert C. Sanders, Esq.
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

7. **Date:** September 21, 1988
 Author: John F. Kavin, Esq.
 Addressee: Robert A. Altman, Esq.,
 Robert C. Sanders, Esq.
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

8. **Date:** September 20, 1988
 Author: John F. Kavin, Esq.
 Addressee: Robert A. Altman, Esq.,
 Robert C. Sanders, Esq.
 Document Type: Confidential Memorandum
 of Client/Witness
 Communication
 Recipient(s)/Distribution: None indicated

9. **Date:** September 19, 1988
 Author: John F. Kavin, Esq.
 Addressee: The BCCI File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

10. **Date:** None indicated
 Author: None indicated
 Addressee: None indicated
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

11. **Date:** None indicated
 Author: None indicated
 Addressee: None indicated
 Document Type: Chronology
 Recipient(s)/Distribution: None indicated

12. **Date:** None indicated
 Author: None indicated
 Addressee: None indicated
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

13. **Date:** September 7, 1988
 Author: John F. Kavin, Esq.
 Addressee: Robert A. Altman, Esq.
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

14. **Date:** August 29, 1988
 Author: Robert C. Sanders, Esq.
 Addressee: The File
 Document Type: Confidential Memorandum of
 Client/Witness Interview
 Recipient(s)/Distribution: None indicated

15. **Date:** August 11, 1988
 Author: John F. Kavin, Esq.
 Addressee: The File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: Robert A. Altman, Esq.

16. **Date:** August 10, 1988
 Author: Robert A. Altman, Esq.
 Addressee: The File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

17. **Date:** None indicated
 Author: None indicated
 Addressee: None indicated
 Document Type: Confidential Memorandum of
 Client/Witness Interview
 Recipient(s)/Distribution: None indicated

18. **Date:** None indicated
 Author: None indicated
 Addressee: None indicated
 Document Type: Chronology
 Recipient(s)/Distribution: None indicated

19. Date: None indicated
Author: Robert A. Altman, Esq.
Addressee: The File
Document Type: Confidential Attorney
Memorandum
Recipient(s)/Distribution: None indicated
20. Date: June 1, 1988
Author: Clark M. Clifford, Esq.
Addressee: Robert A. Altman, Esq.
Document Type: Confidential Attorney
Memorandum
Recipient(s)/Distribution: None indicated

Senator KERRY. In response to your letter request of October 17, please find an index of documents withheld from the subcommittee on the basis of the attorney/client privilege and/or the attorney work product doctrine.

And you have identified those by date, author, addressee, and type and there are some 20 of them. My question to you is why, given the fact that we want to shed light on this thing and you do, you are not willing to waive that privilege or is that something you can't do at this point. Does it have to be done only by the bank? Is there any reason the bank doesn't have the documents?

Mr. Bennett, if you want to respond, I invite you to the table.

Mr. CLIFFORD. I think it would be best if our counsel responded.

Senator KERRY. All right.

Mr. BENNETT. Senator, Mr. Clifford and Mr. Altman have never asserted any privileges on their own behalf. There is a very complicated issue as to who can speak for BCCI and waive BCCI's privileges. I am advised that daily, representatives from country-after-country are coming forward and claiming that they represent, they are the liquidators and lawyers come forward and say they represent the liquidators, and we have advised that until we are certain as to who is in a position to waive privileges on behalf of BCCI, we feel that we have no alternative but to respectfully submit to you a letter such as we submitted to you where we identified the documents and the basis for their being withheld.

We could be exposed, my clients could be exposed if they submit something without their being clear authority to waive and in simpler times, Mr. Chairman, when it was reasonably clear who did represent—and what BCCI was, we were advised that they did not waive the privilege.

Senator KERRY. Let me ask you a question here, appreciating what you have said, their last attorneys of record, Patton & Boggs inform us that Nussbaum & Wald represent the liquidators in BCCI.

Nussbaum & Wald have indeed asserted that notion and they have, I believe, written to you saying—let me just find the appropriate letter here.

Mr. BENNETT. I am familiar with the letter, Senator.

Senator KERRY. All right. We received a letter from them to us, hand delivered October 23, yesterday, and they said: We write in response to your letter requesting that our clients, the Commissaires of BCCI holdings, appointed by the District Court of Luxembourg, the Commissaire of the Bank of Credit and Commerce International appointed by the District Court of Luxembourg, the Joint Provisional Liquidators of Bank of Credit and Commerce International appointed by the High Court of Justice in England, and the Joint Provisional Liquidators of the Bank of Credit and Commerce International Overseas Limited, appointed by the Grand Court of the Cayman Islands, waive BCCI's attorney/client privilege with respect to certain documents referred to in the October 11 response.

So they have indeed acted to waive. Their problem in not being to waive fully is that they haven't gotten the documents from you.

Mr. BENNETT. That is only one part of it. There is an assertion that they waived, but what they are waiving is whatever power

they have. The issue of what power they have is very complicated. I have the highest regard for that law firm, but Senator, I can assure you that the issue of who BCCI is today and who has the authority to waive the privileges is by no means clear.

There are, as I say, based on inquiries I have made, liquidators coming out of the woodwork literally, Senator, claiming that they represent BCCI. And I respectfully—

Senator KERRY. Are you challenging the authority of the bankruptcy court of New York with respect to this proceeding?

Mr. BENNETT. I am not challenging the Bankruptcy Court in New York, what I am saying is that there are claims throughout the world as to who truly represents BCCI in terms of the power to waive privilege. It is a very complicated issue, and I would—

Senator KERRY. We are talking about U.S. jurisdiction, aren't we?

Mr. BENNETT. We are talking about—

Senator KERRY. I am not sure that they would have a right to withstand a subpoena from the Senate of the United States on that basis, would they?

Mr. BENNETT. I am not quite sure I understand. Could who withstand?

Senator KERRY. Well, if we are operating within U.S. jurisdiction and the documents are in the United States and the bankruptcy court which is the only entity that I know of in the United States of America appointed to deal with this matter in this country is willing to waive privilege. What is the issue? There is no jurisdiction of another country over those documents.

Mr. BENNETT. No. What I am saying, Senator, is I would have to study the bankruptcy court opinion. I do not think that bankruptcy court opinion establishes who has the power to waive the privilege. I made—

Senator KERRY. Well, they obviously have waived it as to the matters that they have already looked at.

Mr. BENNETT. To the extent that they believe that they have it, Senator, I am telling you that I have made inquiry—

Senator KERRY. So you are challenging their power?

Mr. BENNETT. I am not challenging the power of the court. What I am challenging is that it is very complicated at this point to determine who can waive the privilege on behalf of BCCI.

I understand, Senator, that it is not even known at this time who owns BCCI, quite apart from the issue of the original nominee status. This is something that the liquidators, all of whom claim powers, and I don't believe that they even recognize necessarily each others' powers. It is just something that is going to have to be resolved.

I would be happy to work with your staff on it, Senator.

Senator KERRY. The questions that we have submitted are questions with respect to compliance with U.S. Senate subpoena. They are not questions that involve any foreign ownership or any foreigners.

Mr. BENNETT. I understand, Senator, but there are privileges of work product and attorney/client privilege that are well recognized in the courts of this country and the only thing that we are asking

is for there to be a definitive answer as to who has the power to waive the privilege on behalf of BCCI.

And I respectfully submit to you that it is very much in dispute. I would be happy to work out with your staff. I will contact the various liquidators and see if I can get an answer to my question.

Senator KERRY. I would obviously appreciate that.

Mr. BENNETT. Thank you, Senator.

Senator KERRY. But might I say to you, given what we know to be the substance of some of those things, it is the kind of thing that sort of just raises another question mark and makes us, forces us into this kind of dialog.

Mr. BENNETT. I understand, Senator, but I ask you too to please understand——

Senator KERRY. I respect that, and we will try to work it out. We will see if we can work it out.

Mr. BENNETT. As you noted earlier, we have been fully cooperative with you——

Senator KERRY. Let's see if we can work it out.

Mr. BENNETT. We will try to work it out.

Senator KERRY. Let's try to work it out. Let me come back now to one of the other critical issues here. There are a number of issues that still remain sort of part of the overall puzzle, and we need to ask the questions in order to understand the relationship because so much has been written about it and it is obviously part of the pattern that the documents set in front of us.

This morning, in response to my questions, Secretary Clifford said that there was indeed a separate management, and that there was a separateness in the undertakings, notwithstanding that Mr. Abedi would advise, that there would be an advisory role so to speak representing the shareholder interest.

What I would like to ask you to do if you would please is addressing document No. 11, to start with, this is—these are just a sampling of documents. Needless to say, as I said earlier, this is not a forum in which to—we are not going to—we just don't have time to go through everything.

But looking at the document No. 11, it is on Bank of Credit and Commerce International stationary and it is a Mr. Khusro Karamat Elley and I think you know who Mr. Elley is, correct?

Mr. ALTMAN. Yes, sir.

Senator KERRY. Mr. Elley worked for First American at one point?

Mr. ALTMAN. Yes.

Senator KERRY. Do you remember what period of time?

Mr. ALTMAN. He joined the bank officially in July 1983, I think that is what the records indicate, and was active in the bank until this year.

Senator KERRY. What was his title or his office?

Mr. ALTMAN. He was a senior vice president at First American Bank of New York. I think he had different functions over the years. They involved financial planning and the like.

Senator KERRY. At the time that he wrote this, October 14, 1982, he was submitting to a Mr. Shoaib of the Central Planning Division at BCCI London a monthly performance report for the month of September 1982.

And he says: Enclosed is the report of certain activities of the representative office, that is BCCI for 1982. Notable exceptions not included in the report are as follows: One, attending the IMF conference held in Toronto; and two, this is what I am interested in, advising First American Bank in the acquisition of space for their New York bank. Signed, Mr. Elley.

Now why is Mr. Elley of BCCI doing a monthly report to BCCI about the acquisition of space for First American?

Mr. ALTMAN. Senator, I can answer this. If you would indulge me, let me put this in context.

First, I might say that to the best of my recollection until last night I had never seen this letter before or the other letter under this tab. So it's a little hard for me to say what the author of the letter had in mind. I had never seen it and had never discussed it.

But I can describe for you what was happening at that time period, which I think would make sense of this.

We completed the regulatory proceedings relating to the acquisition of First American before the Federal Reserve in August 1981. We still needed to get one final regulatory approval and that was from the State of New York. We went before the State of New York and it was a very difficult situation because of political and ethnic considerations that arose in the context of those proceedings.

And our application before that banking board in the fall was initially rejected and denied. And we then had discussions with the staff of the banking board. At that time, Financial General, the company being acquired, the predecessor to First American, owned two banks in New York State. One was a very small bank in Albany, NY, called Community State Bank. It was about \$70 million, \$75 million in assets, as I recall. The important bank was called the Bank of Commerce in New York City, a much larger bank.

The Bank of Commerce board opposed the acquisition. They did not wish to be acquired as often happens in times of corporate acquisitions and had posed this before the banking board. Ultimately, a resolution of the matter occurred when the group agreed that if the application were approved, the Bank of Commerce would be sold. Indeed, it was to be sold to the directors. That was the original agreement, although they ended up not acquiring it as they couldn't raise the financing. It was sold to another bank.

But there was a program then that the Bank of Commerce, the New York City bank, would be sold. The investors were left in the posture, in effect, of starting a new bank. When we were going through the regulatory proceedings before the Federal Reserve this was, of course, completely unforeseen. We didn't anticipate that we wouldn't acquire the bank in New York City. And the condition that was agreed to with the banking board in New York was that if the Bank of Commerce were sold a license would be granted for the little Albany bank that remained in New York to open in New York City, to gain a license to branch into New York City. And it shifted its headquarters to New York City.

When the acquisition was completed in the spring of 1982 we were then in a very awkward and, to some extent, unhappy posture. We were under an obligation to sell the New York City bank.

And we were under a need to set up a new bank and really set it up from scratch. We had nothing in the city. We had no staff. We had no location. We had no resources. It put us, as I say, in a difficult position.

Now throughout the takeover litigation and during the regulatory proceedings, we essentially had two contacts in New York. One was the law firm of Wachtell, Lipton, Rosen & Katz that was cocounsel with us and represented the shareholders during these proceedings. And the other was BCCI which had a representative office and was acting as the investment advisor.

And we used those resources to try to get set up in New York. Our first obligation was to try to find space so that we could open the bank in New York. And there was some urgency about doing that because we were under pressure to sell the Bank of Commerce and we didn't want to sell that bank until we had been granted the right, officially, to open the new bank. And that required us to have space that was leased.

And so we went to the people we knew at Wachtell, Lipton and we asked the attorneys did they know of space in the city. And they did. And they recommended space. And we went to BCCI's representative office in New York, which was then headed by this man, Elley. And he also attempted to assist us by telling us of brokers or space that he was aware of. And, indeed, this was something that I worked on personally.

But I was not in New York City and when I would go up there and I was to get back messages or information, I would usually ask people to send it either to BCCI in New York or to the New York lawyers. They acted, in effect, as a local contact for us.

And so BCCI was trying to be helpful to us. Now this did not seem particularly out of the ordinary. BCCI had recommended this investment to these important clients. And an investment advisor certainly wants the investment to be successful. That's how you remain the investment advisor. And so this may be a long answer, but I think you have to understand the context.

What I am assuming happened is that Mr. Elley is reporting on what he has been doing to his superiors in London. And he reports that he has given us some information on space that we might acquire.

Senator KERRY. Was it limited to space? I mean, was this all that BCCI was doing?

Mr. ALTMAN. No; BCCI generally tried to help us get established in New York.

Senator KERRY. This occurs very shortly after the whole go around with the permission of the takeover, correct?

Mr. ALTMAN. Sure.

Senator KERRY. Muckenfuss had accepted that based on the representation of the letter earlier. Leaving out the in the future, leaving out the financial transactions themselves, the management and affairs were supposed to be separate. It seems to me that you began, almost immediately, the very thing that they had feared, which was an interrelationship, a financial dependency, a sort of intermingling of the affairs.

Mr. ALTMAN. Senator, if I might, I don't think that's the way I would characterize it.

Senator KERRY. Well, let me ask a few more questions about it, then and then see.

Mr. ALTMAN. Sure. OK.

Senator KERRY. Three months later, directing yourself to the next document, there is a letter to Mr. Naqvi.

Now you have testified that Mr. Abedi was your communications link and Mr. Abedi was the advisor for the group. Here is a letter to Mr. Naqvi on Bank of Credit and Commerce stationary by Mr. Elley—a meeting was held between myself and Mr. Altman in New York in which the following subjects were covered, not only the subletting of space, but selection of board directors, recruitment of key staff, selection of auditors, selection of lawyers, compensation package, including fringe benefits, projections for first year's operations, coordination with holding company and shareholders.

Now these are some of the most important decisions that a new bank would make. And here is Mr. Elley reporting to Mr. Naqvi at BCCI on this transaction. Why is that not directly in contravention of what Mr. Muckenfuss was talking about?

Mr. ALTMAN. The understanding that we had with the regulatory authorities was that BCCI was not going to make the decisions, that control over the operation would remain with Mr. Clifford and the board of directors.

Senator KERRY. I am sorry to interrupt you there, Mr. Altman, but is that not kind of a nicety? I mean, are we not really talking about differences without a distinctions, distinctions that are not a difference?

I mean, here you are sitting there reporting to Mr. Naqvi or talking with him about the recruitment of board directors, et cetera. And it is Mr. Elley reporting. It is not you reporting. You are the lawyers, you are supposed to have the communications link with Mr. Abedi.

Mr. ALTMAN. Senator, if I might, a couple of points.

The first is that while Mr. Abedi was the individual who had the close, personal relationships for the most part with these Middle Eastern investors, it wasn't Mr. Abedi personally who was designated as the communications link. It was BCCI, the institution. And Mr. Naqvi was his right-hand man who later succeeded him.

Senator KERRY. It seems to me that makes it even more complicated. BCCI as the bank is the entity and not Abedi. You have a real problem here in terms of dealing with the separateness.

Mr. ALTMAN. I am trying to explain what the understandings were.

It was understood by the regulatory authorities at the time, not that Mr. Abedi was the advisor to the shareholders, not that Mr. Abedi was the communications link, but that BCCI performed and would continue to perform those functions. That was expressly disclosed to the regulators during the regulatory proceedings in 1981. I can refer you again—

Senator KERRY. Was that not expressly objected to by them afterward?

Mr. ALTMAN. No, sir.

Senator KERRY. That is not what this letter means?

Mr. ALTMAN. You are not talking about Mr. Ryback's letter? Are you talking about the letter that Mr. Muckenfuss wrote?

Senator KERRY. Yes.

Mr. ALTMAN. Mr. Muckenfuss was writing an opinion for the Comptroller of the Currency to the Federal Reserve, giving the Federal Reserve their comments on the application. They are not the decisionmaker.

Senator KERRY. I understand.

Mr. ALTMAN. The Federal Reserve and, indeed, the Comptroller understood that we were going to have a continuing relationship with BCCI. It was stated expressly in the application. It was stated at the hearing. Some of the hearing examiners made that comment, that they recognized that BCCI was going to continue to provide this service.

This was not anything that was unknown to them. But the basic understanding was that the control over First American was going to be exercised by the American board. And I refer you again to the comments made by Mr. Clifford in his opening remarks. They have now come in and done intensive audits of First American. They did them all through the years.

And when this allegation arose they came in with this wide-ranging, intensive coordinating audit of the holding company and all the banks. And the conclusion that has been reached insofar as it has been reported is they find no evidence of any BCCI control over First American. And that is the issue.

Senator KERRY. Well, control is a fascinating issue here. You are absolutely correct.

There are many definitions of it, actual, constructive, legal, and so forth. And there is such a thing as hidden control. I mean, that is another nature of the beast where you can have all kinds of things happening on one side and then there can be real control that is not even hidden, excuse me, that is not exercised, neither constructive nor implemented, but it can exist, to be exercised at some appropriate moment. So control is a very big question that is sort of dangling out there. And I do not think anybody has a handle on it yet.

But, proceeding, just to sort of go through these various things that sort of go to this issue of control or what is at stake here. And this is really just part of the confusion.

I do not know what it all means. I just know that it raises a question. And you cannot help but ask it. For instance, turning to the next document, you have Mr. Naqvi again receiving a letter from Mr. Elley in which Mr. Elley says "Re: The Board of Directors, First American Bank." He says,

I am enclosing for you the particulars of an individual who I've known for the last 4 or 5 years and who I consider to be eminently suitable to be a member of the board of directors of the First American bank of New York.

Mr. Richard Paget is president of a very prestigious management consulting firm. He's on the board of a number of companies including the Washington Post. My relationship with him is fairly close and I feel we could not only use his name, but also his contacts which are at very high levels. Mr. Paget is 69 years old. Recently he's been awarded the U.S. Navy Civilian Service Medal and has agreed to become chairman of the American Friends of the Australian National Gallery Foundation.

I would like you and Mr. Abedi to meet him on your visit. Yours truly, Khusro Karamat Elley.

Now here you have Mr. Elley who works for BCCI writing a letter to Mr. Naqvi regarding the board of directors of your bank,

and he says, I am enclosing, who I've known, who I consider to be, who I feel, I would like you to meet him on your next visit. There is no mention of Mr. Clifford or Mr. Altman. There is no mention of CCAH. This seems to be a totally, sort of, BCCI operation with respect to the board of directors of your bank.

Mr. ALTMAN. Senator, I have several comments to make because I think they are indicated.

As I stated initially, we had a very unusual situation that developed in New York. And you are focusing on a period nearly 10 years ago, very limited in time, and it's appropriate that the committee look at it. But fairly, the committee should look at what happened at First American for the decade that we managed this property in New York and in Washington and in Maryland and in Virginia and in Tennessee and in Georgia and in Florida and all of the various subsidiaries we had.

And I think that you will conclude that there was no control over First American by BCCI. I gave you two quick commonsense indications of that. One, there is a perception that BCCI is a corrupt institution and that it engaged in misdeeds around the world. Now if BCCI was controlling First American for 10 years, presumably you would find some indication of that. But you do not.

Senator KERRY. In what sense? What do you mean by that? I mean, when you say——

Mr. ALTMAN. BCCI, if you accept the allegations, I don't know whether they are true, but accepting them for purposes of discussion, that BCCI engaged in everything from financing terrorists to money laundering and all this parade of horrors, account manipulations, fraudulent statements, cheating depositors, et cetera——

Senator KERRY. I do not think that happened in First American and I do not think anybody has suggested that.

Mr. ALTMAN. I am making two basic points.

Point No. 1 is there is, the evidence is, I think, quite clear that First American was operated honestly.

Senator KERRY. I agree with——

Mr. ALTMAN. If we were controlled——

Senator KERRY. To the best of my knowledge, I absolutely agree with the basic premise that the bank as we knew it in Virginia, Maryland, Washington, I have not discovered any impropriety in the day-to-day operations.

But that is sort of skirting the issue, I think. And I am just trying to put in front of you what the issue is that keeps coming back.

The issue is did Mr. Abedi set out on a quest, which according to the testimony of countless people now, Mr. Rahman, Mr. Sakhia, people who were part of this bank, have talked about his goal of entering the U.S. market, of gaining a foothold in America. And he tried several times in several places. Everybody knows he wanted to do this. It is part of the regulatory record. It is no mystery. He wanted to be in the American market.

And he could not do it with an outright purchase initially because Bank of America was there and then there were some problems in what they were able to disclose. And they did not want to come under one regulatory head at first.

So they found their shareholders, maybe without you even knowing it, obviously. You have so testified and nobody has shown to the contrary. He comes up with this investment group, puts them in as First American and First American now has a group of shareholders from the Middle East run through Mr. Abedi who very cleverly is managing this group from the Middle East, getting a foothold in America.

And you are representing it very effectively and competently. You are wearing a lot of hats. You are attorneys for BCCI, attorneys for him, attorneys for the bank, president and manager of the bank. It is very tight. So nobody knows really whether 10 years from then he expected to cash in, maybe buy you out, have a foothold, have built it up.

But that is the issue that is lurking here, is what was going on. Now I am willing to allow—let us say we leave the New York situation for a moment. You say that that is a situation that was set up because you had an urgent need to deal with the New York bank.

Mr. ALTMAN. But I am not saying that anything inappropriate was done despite the urgency of the situation. I am just trying to describe for you what happened.

Senator KERRY. I accept that. I just want to move on from that.

Accepting that, you have said that it was a legitimate sort of relationship, that you noticed the Fed would continue and this was an urgent situation, so they were helping you in the context of the urgent situation. Is that fair?

Mr. ALTMAN. Yes, sir. But they were not making the decisions.

The decisions remained with the American group as we had said to the Federal Reserve.

If I could just complete the thought that I had a few moments ago.

Senator KERRY. Sure.

Mr. ALTMAN. One, I say that, again, we proved the negative. Did BCCI control you? We say no they did not. We point at the evidence that if BCCI is a criminal organization as has been alleged, why from a commonsense standpoint do you find no indication of that at First American? Why is there none of the practices at First American that are said to be in other parts of the BCCI operation if we are really a part of BCCI? That is point 1.

Senator KERRY. Do you want me to answer that?

Mr. ALTMAN. Certainly.

Senator KERRY. Because it is, I mean, I can give you an answer. I do not know if this is the real answer. But because it obviously did not serve their interests. They did not have the kind of sort of, they had conceivably the sort of expectancy control and expectancy ownership through their knowledge of the shares they held because of the financing mechanism.

But, indeed, they wanted you out there, out front, controlling and growing and moving on the day-to-day decisions because ultimately they wanted an asset that was a big asset, that had grown. And they did not want to upset the American marketplace. There is ample evidence that they continually sought ways to avoid coming under the U.S. regulatory process precisely because they would then not have had the freedom they had in the Cayman Is-

lands, Panama, and other places to do the kinds of things that they were doing.

So, that is, I think, the answer to your statement.

Mr. CLIFFORD. Senator, I have refrained from interrupting.

As Mr. Altman and I started together, and as we have continued through the last 9 years, we would separate the areas of responsibility. New York was one of his areas of responsibility. So I have not interfered.

You cannot look at any of these comments without understanding that the relationship and agreement between Mr. Abedi and me was such a final and definite and unequivocal one. I told you about the understanding when I first agreed to take over the chairmanship.

The agreement was that I would have total responsibility and I would have total authority. He never violated that at any time. He can make suggestions. He can make offers of help. But when the time came to make decisions, he did not make any one of these decisions in any way. The board and I made them all.

Now we turned for help in New York to BCCI because we needed the help of a banking organization that had a background in foreign banking. Mr. Altman and I had no background in foreign banking. Keep in mind, New York was just one of our eight banks. And I think constitutes maybe 15 percent of the assets of First American. So it was not by any manner of means our most important. It offered the most serious problems because we had to start a bank from scratch, literally. We bought chairs and tables and typewriters and pencils and erasers. We started right from the beginning.

We needed the help we could get. We turned to Wachtell, Lipton for help. We turned to two or three banking advisory groups for help. We turned to Abedi and his organization for help. And by all working together, we got the bank started. But all during that time they were assisting us, they did not make one decision.

Senator KERRY. Is it possible, Mr. Secretary, that Mr. Abedi and the group around him were convinced that they owned First American and they did not need to make decisions, but that they viewed it as part of their holdings, without your being aware? Is that—

Mr. CLIFFORD. You ask if something is possible. It never entered our mind at the time because we never had the slightest indication that BCCI owned any stock in First American or even contemplated ever owning any stock. We accepted them in their capacity as representative of the investors who were our bosses.

Senator KERRY. Did there not come a time when one of you saw a printed brochure of BCCI with First American in it and you discussed that with Mr. Abedi? Do you recall that incident?

Mr. CLIFFORD. No, I do not.

Mr. ALTMAN. I don't either.

Senator KERRY. Let me direct your attention to article 2, document No. 12, which are the minutes of the U.S. marketing meeting held on April 24 in New York.

The following attended the meeting: Mr. Aijaz Afrifi, Mr. Tariq Jamil, Mr. Khusro Karamat Elley, and then seven other people are listed. The seven other people are all employees of BCCI. But at that point in time, Mr. Elley represented First American in New

York. Mr. Tarig Jamil was running National Bank of Georgia, a bank that they do not own yet, but which has the BCCI logo. And Mr. Afridi is representing, I believe, First American.

So here you have a minutes of a U.S. marketing meeting held in 1985. And I read from the matters discussed, purpose of the meeting.

Mr. Afridi opened the meeting and emphasized that the purpose of the meeting was to coordinate the efforts of different locations of BCC and other institutions so that the president's desire to have a totality in approach is achieved. It is a great challenge that the group faces in the present and future U.S. operations. And this is only by the joint efforts and coordination we can meet the challenge. Mr. Tariq Jamil described it as a very timely meeting.

Now this is the National Bank of Georgia talking at a U.S. marketing meeting for BCCI, National Bank of Georgia being owned supposedly by Gaith Pharaon with a loan from BCCI.

They describe it as the first meeting, as the initiation of our efforts to move into the future of BCC in U.S.A. in a calculated and planned way, with the uniformity of approach and totality in operational objectives.

It talks about the assistance of U.S. operations will be presented to the CSO. I gather that is Mr. Abedi.

Now it goes on and Mr. Afridi of First American says that our major task in the United States should be to build market share. BCC has been a success. Now this is Mr. Afridi then working, I believe, for First American talking about BCC having been a success in Third World. And now we're embarking on establishing an equally successful business in the most competitive country in the world. "He requested the members to work together to overwhelm the U.S. market. Historically, we have not made calculated approach to the local indigenous market"—indicating that now they will. I mean, as you read this, and here is Mr. Sakhia who testified here the other day, Mr. Sakhia talking about concentrating on increasing the customer deposit base and so forth, finally, the National Bank of Georgia.

To update each member of the operations of different units, they would discuss their size and volume. So here you have the National Bank of Georgia, not yet purchased by you, then owned supposedly by Gaith Pharaon on this loan from BCCI, and all of these banks are here, sitting there together, talking about their size, their customer approach, creating a 1985 coordinated approach to this process, and obviously one is left looking at this with an extraordinary impression of a very special relationship that existed here, unlike other banking institutions that are competitors, that are separate but are operating according to the standards that I thought the Fed expected.

Now, I guess you are going to say that is not what it meant, but can you explain to us what it does mean?

Mr. ALTMAN. Senator, I can't explain what this does mean. To the best of my recollection, the first I heard about this committee was in the fall of 1990. I received a telephone call from a reporter from the Washington Post, and he had asked Mr. Clifford and me about an American coordinating committee, and I have not had the opportunity to study the minutes of those various meetings, so I can't comment on what was intended, and I can't comment on the

propriety of what the participants were doing, but I think it is troubling. But these are matters, to the best of my recollection, we never heard about until these documents surfaced.

Senator KERRY. It is possible, Mr. Altman, then, that Mr. Elley and Mr. Afridi were working for you but behind your back, unbeknownst to you at these meetings? Did you not know they were at these meetings?

Mr. ALTMAN. That is correct.

Senator KERRY. Now, Mr. Elley says at the end in this conclusion, he says—this is on page 7—Mr. Elley concluded that “In America we are sitting on \$7 billion worth of assets, and this is just the beginning. The U.S. team should play an important role in identifying the products in the market,” and so forth. There is no way they could have obviously talked about \$7 billion worth of assets without including the First American family at National Bank of Georgia in there, and in fact, Mr. Sakhia and Mr. Rahman both assert that is exactly what they did.

So you are saying that these folks were basically somehow viewing themselves as a separate entity, acting as that but absolutely without your knowledge?

Mr. ALTMAN. To the best of my recollection, Senator, we never heard about any of this activity.

Now, I would say there is nothing necessarily impermissible on banks getting together and talking about business, but the way this is presented here is disturbing. I understand that the minutes of these meetings show—I have not seen them all, but the minutes of these meetings show that neither Mr. Clifford nor I ever attended any of these meetings or were given copies of these minutes.

I think it appropriate to note that these two individuals from First American were working for First American Bank of New York, and whatever efforts they were engaged in here, they would have to answer. I could not explain, and certainly I would need some time to study the documents, but I think it appropriate to have in the record that the chief executive officer of the bank, a man named William Duncan—he has been the CEO there for about 6 years—this past year wrote a letter to customers, employees, and friends when the financial statements came out.

It is dated March 1991, and he writes as follows: “As this report goes to press, there has been publicity concerning First American Bank shares, this bank’s holding company, and the Bank of Credit & Commerce International. The publicity addressed alleged connections between BCCI and the management of First American Bank shares. The sensationalized tone of some of the publicity was disappointing, because First American Bank of New York’s integrity has always been of the utmost importance to me personally”—I am quoting. “At no time did the Bank of Credit & Commerce International exercise any control over the management of First American Bank of New York. This bank is independently governed by a board of directors comprised of distinguished business people, as well as a group of highly professional managers who use their objective judgment and experience to guide our organization,” and he describes just a little bit of the board.

So I cannot explain what was going on at these meetings, but I can tell you what the perspective was from the senior officers of the company.

Senator KERRY. I have some more questions along this line, but let me turn to Senator Brown for a moment here.

Senator BROWN. We had earlier heard from Mr. Sakhia. You may have heard that testimony—perhaps not. But there was a point in his testimony where he indicated that he had helped co-ordinate marketing for BCCI in Canada and the United States, and implied clearly that he in effect had developed marketing plans, market allocations for BCCI's holdings in the North American continent.

He directly implied that the operating nature of these banks was that they all operated as though they were directed by BCCI. In effect, he indicated that First American operated as a branch in this regard. Can you think of anything—well, first of all, would you comment on that?

Mr. ALTMAN. There is much that Mr. Sakhia has said to which we take the strongest exception. It is false and it is without factual foundation.

Senator BROWN. Well, that is a very direct statement and I think deals with that.

Is there anything you can recall in terms of meetings that would have given him this impression?

Mr. CLIFFORD. Let me try, Senator. What impression? just give me that again. I did not quite understand it.

Senator BROWN. The impression that BCCI coordinated your marketing strategy.

Mr. CLIFFORD. Of our various banks? Totally untrue. Let me say that the background of this whole subject is such that we never knew these meetings were going on among the BCCI people.

It may be during this period—we do not know when they began to acquire First American stock. We did not know that. Nobody else knew it. So they had plans going on, secret plans. Perhaps they were conspiring among themselves, but we were not conscious of that. The authorities were not conscious of it.

This may be part of the typical operation of the way BCCI does its business, handling it secretly. This was probably going on—using the analogy this morning of an inside bank and an outside bank, this is the inside bank operating.

As long as you have brought up, Senator, the name of Mr. Sakhia, I was so concerned about a comment that he made yesterday that I decided to put my remarks in writing so that perhaps they would be restrained. If I made then naturally, they would be less than restrained.

I hesitate to dignify Mr. Sakhia's testimony by even referring to it, but I want this committee to know that at no time did I ever say to Mr. Sakhia or anyone else in a joking manner or otherwise that we can "now tell more lies." It was an outrageous statement, has no basis whatsoever in fact.

It is totally a departure from any kind of comment that I would make. It is grotesque. It is totally and categorically false, and I think it is exceedingly unfortunate that such a remark was made and spread out to the public that I am talking to somebody else

about the time has come to tell lies, and I deeply resent the opportunity that he had to tell that.

Senator KERRY. Well, let me just say, Mr. Clifford, I reacted to it with a certain amount of shock at the time, and I questioned it two or three times, because I did think it sounded bizarre, but it was something that he insisted on saying and wanted to say no matter what, and as incredulous as I thought it sounded for anybody to make, he insisted on making it, and I think we went back over it several times because I think we were both somewhat dumbstruck by it.

Senator BROWN. Along this line, there is a memo dated September 4, 1984, from this Mr. Naqvi, and I do not know if you have a copy of that available to you.

Mr. ALTMAN. I do not have it, sir.

Senator BROWN. I guess we have a copy we will bring down to you. I was hoping when you have a chance to review it that you might be willing to comment on it. [Pause.]

Mr. CLIFFORD. Senator, we had not seen this before. My recollection is this first came to our attention when we were testifying before the Federal Reserve. I remember the incident about which Mr. Naqvi is speaking. We wanted to keep Abedi and Naqvi informed so they could keep their investors informed.

We were selecting from time to time directors. We went ahead and did it on our own in about 95 percent of the instances, and this one here was a man, a very able fellow that we were considering bringing on to the board—Pursley, but he was a partner in J.H. Whitney & Co. Now, we wanted to be sure that that did not constitute any kind of a conflict in the operation of our banks, and in the event that—we just wanted to be careful.

We mentioned that to him. We did not have to be guided. My recollection is that they said they had no objection to Mr. Pursley, but later on as a result of other developments we did not appoint him.

There is something that is fundamental, and that is, in every contact we had with BCCI, after our understanding on what we will call responsibility and control, and that meeting in London, everything that passed between Naqvi and Abedi and me was in contemplating of that agreement that we had. If they had suggestions, we would be glad to hear them. Sometimes we even asked them for their reaction to something. But in the last analysis, the board and I made every decision without any one exception.

Senator BROWN. The paragraph we wanted to draw your attention to is at the end of No. 1. It reads as follows: "I indicated to him that if Mr. Clifford's judgment is that he would be suitable for the proposed position, Mr. Abedi should not have any reservations. To save time, I suggested that he may proceed to finalize the arrangements," the implication being—and I guess I would appreciate your view as to whether you feel it is a fair implication, but the implication being that Mr. Abedi would be required to pass on this before action could be taken, or there was a relationship that involved Mr. Abedi passing on this. Would that be a fair reading on this?

Mr. CLIFFORD. Well, I can only read it in the light of what our understanding was. We had said we were considering this man, did

they have any reactions of any kind? We would get whatever their reaction was back, and then I made the decision.

Senator BROWN. The reaction you were looking for was from someone who was an advisor to you, not someone that you viewed as—or, the reaction you were looking for was someone who was an investor?

Mr. CLIFFORD. No. We treat Mr. Abedi, we treat Mr. Naqvi, as the representative of our investors. Maybe we felt that if it was an important enough matter we might have gone to the investors, but we did not. That takes too long. We wanted to get any reaction that they had. We would merely put that in our computer along with other information before the board and I made the decision. That is what it comes down to.

Mr. ALTMAN. Senator, there is, I think, a much more fundamental—I believe there is a more fundamental event that might throw light on this issue that you are pursuing. In this case, Mr. Clifford ultimately did not determine to put Mr. Pursley on the board, so this did not go anywhere, and obviously we cannot speak as to what the author of this document had in mind or interpreted Mr. Clifford to be saying. We had not seen it before.

Let me reference you, if I might, to the acquisition that First American made of the National Bank of Georgia. I think, again, we are in the posture of proving negatives continually, but I think this is a transaction which is quite revealing. National Bank of Georgia we understood to be owned by Gaith Pharaon, and while it was under his ownership, it operated in a manner that was quite characteristic of BCCI.

I do not know if BCCI actually controlled it, or if they just adopted BCCI's operating characteristics, but it was very similar to a BCCI operation, and I was making the point earlier that we have operated very differently from BCCI, despite allegations of control.

The similarities between the National Bank of Georgia when owned by Dr. Pharaon—ostensibly owned by him, and we do not know the truth as to that allegation, but that bank at the time it was acquired by Dr. Pharaon changed the way it had operated, and it started to operate the way BCCI operated and the rest of the world.

That bank had been a retail-oriented bank. It totally changed its focus, and it became, or attempted to become, an international bank doing trade financing and the like, such as BCCI conducted in its operations in the rest of the world.

They adopted cultural characteristics of BCCI. They changed their logo so that it was very reminiscent of the distinct logo of BCCI. They changed the way their executives sat on the floor of the bank. Instead of being in offices, they were all out on the floor. This was a BCCI concept. Indeed, we understand they distributed BCCI literature.

The man from BCCI went to the National Bank of Georgia, this Mr. Jamil, who the chairman made reference to earlier, and became, I think, the chief operating officer. He was running the bank. A Mr. Carlson, who had a close association for many years with Mr. Abedi, became the chairman of the bank.

That was the situation when we acquired the property in the summer of 1987, and I think it appropriate to look at what hap-

pened to that bank after we acquired it. Mr. Carlson, the chairman, presumably of BCCI owned it, was someone they thought was an appropriate chairman of the bank. Mr. Jamil of BCCI owned it or controlled it, at least had operated it in a manner characteristic of BCCI. We replaced Mr. Carlson immediately. Mr. Jamil departed. Another individual who was close to Dr. Pharaon also left.

We installed as the chief executive officer a man named Mr. Freeman. Mr. Freeman is a man who in point of fact was not much taken with BCCI. He did not find much favor with the way they operated or their cultural—corporate cultural concepts, but despite that, because we thought he was the right man for the job, even though he did not have particular regard for BCCI, he was installed as the CEO of that bank. Whatever BCCI may have thought of him or he thought of BCCI did not enter into it.

In addition, we changed the strategic concepts at the National Bank of Georgia. We deemphasized this international focus that they had had. We returned to the way that First American operated, which is a primary focus on retail banking, and on banking with small commercial businesses. We got rid of the cultural concepts. We put them back in offices. We eliminated the distribution of BCCI literature.

We operated it as a First American Bank, just like all the other First American Banks, and that is what we did for 9 years, and I return to the conclusion that the Federal Reserve made this year. Having heard all these allegations, they came in with a coordinated audit of First American involving FDIC, State regulatory authorities, the most experienced Federal examiners they had from all 12 Federal Reserve districts—they wanted their best people—and they went through First American and they went through everything at First American, and their conclusion was “and in delving into these records we found no evidence of influence or control.” That was the conclusion of the Federal Reserve, and I think the experience of the National Bank of Georgia is indicative of that.

Senator KERRY. I hate to interrupt on this point, because we are on the back end of the vote that typically was predicted for earlier than this, but if you will forgive us, we are going to recess just for the period of these votes. I suspect it would be a recess of 20 minutes or so, and then we will return.

We stand in recess.

[A brief recess was taken.]

Senator KERRY. The hearing will come back to order. Thank you all very much for your patience. I apologize for the interruption. I think we are on a clear course now. We ought to be able to proceed until we finish, which I hope can be punctually, and obviously we will try to do that.

Mr. CLIFFORD. Thank you.

Senator KERRY. Let me come back—did you complete your line of questions, Senator Brown?

Senator BROWN. If it is timely, Mr. Chairman, I have a few other lines, but I think it makes sense to go with yours, but I would like to put some things in the record now, if the subcommittee might consider it.

There is a statement here from Senator Helms on the subject that he would like entered into the record.

Senator KERRY. Without objection, so ordered.

[The prepared statement of Senator Helms follows:]

PREPARED STATEMENT OF SENATOR JESSE HELMS

Mr. Chairman, this morning this subcommittee writes another chapter in the saga of BCCI and its worldwide web. As I have followed these hearings, I have been amazed by the statements and allegations that have been made by former BCCI insiders who have told the subcommittee that they knew that First American was part of BCCI's empire.

We have heard that the leadership of BCCI knew that they owned First American. We have also heard that the staffs of BCCI's offices in the United States knew. Today, we will hear from two key players in the relationship between BCCI and First American who have testified that they did *not* know—Messrs. Clifford and Altman.

Last month, both of today's witnesses testified before the House Banking Committee. Despite a long session, there are still many questions that I feel they need to answer about the relationship between the two banks and their roles in both banks.

For example, questions have arisen about loans that First American made to the shareholders of the bank. While these loans are not illegal, there are questions about whether these loans would have been made in the normal course of business and about steps made by First American to collect on them.

There are questions which need to be answered about at least two BCCI meetings attended by members of the staff of First American Bank of New York. According to testimony before this subcommittee, no other banks that BCCI had a relationship with ever attended these meetings. There are also questions about who asked Mr. Clifford to take the position of chairman of First American.

I take this occasion to compliment Senator Kerry and Senator Brown for their leadership on this issue. As the United States continues to move forward into this so-called international marketplace, it has become imperative that we in this body understand the way that international companies operate with seeming impunity and lack of oversight. This includes not just rogue banks, but also firms willing to sell anything to anyone for the sake of profit as well as former government officials who are willing to use their reputations as "fixits-for-hire" or as one witness has testified, "rent-a-faces."

Senator BROWN. Several questions that Senator Helms asked to be put in the record and would ask for responses from the witness.

Senator KERRY. Without objection. We will leave the record open in the event that we have some questions, or in the event that either of the witnesses would like to submit something subsequently. So the record will remain open for a period of time.

[The information referred to follows. No answers to these questions were provided by the witnesses as of December 31, 1991.]

QUESTIONS FOR MESSRS. CLIFFORD AND ALTMAN

TAKING CHAIRMANSHIP OF FIRST AMERICAN

Question. Mr Clifford, I would like to clear up a question about who exactly asked you to take over the chairmanship of First American. In your testimony before the House Banking Committee and in press interviews, you stated that Mr. Abedi and Mr. Adham asked you to take the position. In your written responses to questions submitted by the House Banking Committee, you stated that you were asked by Mr. Adham. Finally, in your written statement before the House Banking Committee, you stated that the investors asked you to take the post.

—For the purposes of clarification, just who did ask you to take the post?

ATTENDANCE BY FIRST AMERICAN STAFF AT BCC MEETINGS

Question. In your previous statements and in various press accounts, you both have testified that you had no idea that your bank was under the control of BCCI. Yet, as I understand there a number of documents in the possession of the committee that question your statements.

—In your written responses to questions by the House investigators, you state that "Mr. Abedi, however, did not make decisions regarding the selection, hiring or retention of any First American officers." Can I assume from this comment that it was your independent decision to hire Mr. Elley to head the new First American branch in New York?

—How often did either one of you keep in contact with Mr. Elley to track the actions of your New York subsidiary?

—Where you aware of the fact that in the words of one former First American employee: "Everyone knew each other. They [employees of BCCIs New York office] were here all the time?"

—Was it standard practice for employees of the bank to inform their superiors when they attended meetings with representatives with other banks?

—I bring your attention to a document obtained by the committee relating to meetings of the "U.S. Coordination Committee" on April 24, 1985. You will note that Mr. Elley and Mr. Alfredi of First American Bank of New York attended. I also bring your attention to a statement on page one of the minutes of the meeting. The first paragraph states: "It was the consensus of the meeting that the challenge facing the BCC Group in the U.S. was a unique one, since they had hitherto been mostly successful in developing countries. They were now embarked on establishing an equally successful business in the most advanced and most competitive country in the world."

The fourth paragraph of the same document begins: "It was agreed that whatever the problems that were to be faced and the potential solutions we would arrive at we had as good a chance of success as anywhere else because we truly believe BCC was a mission."

Based on these two lines from the first meeting of the Coordinating Committee, do either of you believe that the participants of the meeting believed that object of the meeting was to improve the position of the BCC Group in the United States?

—Did either of you authorize Mr. Elley and Mr. Alfredi's participation at this meeting or the meeting in June?

—Did either of you receive a report from either Mr. Elley or Mr. Alfredi on the events that took place at this meeting?

—Were either of you aware of the fact that, according to the testimony of Mr. Sakhia, only representatives of First American Bank and National Bank of Georgia attended these meetings and that BCCI did not have a similar relationship with other banks such as Bank of America and Security Pacific?

LOANS TO FIRST AMERICAN SHAREHOLDERS

Question. Gentlemen, on September 27, the Philadelphia Inquirer reported that "the first big real estate loan made by First American's New York subsidiary" went to a partnership which included Sheik Kamal Adham, who was, as we now know, a share holder in First American.

—While loans to shareholders are not illegal, they must be reported to the Federal Reserve Board. Was this loan reported to the Fed?

In 1985, First American in New York loaned \$11 million to Lancet 150 Nassau Ltd. According to former First American employees interviewed by the Inquirer, it was the largest loan on the books and many thought that the loan was a bad idea. According to one employee, Fred Giancola, interviewed by the Inquirer, Lancet started missing payments on the loan early this year. Mr. Giancola noted that this was about the time BCCI started getting more bad publicity and he stated that "It was scary * * * because we knew one of the owners of the bank was a principle in the partnership. He noted that bank officials feared that the bank would attract unwanted attention. Finally he stated that he was told by a superior at the bank that Mr. Altman personally interceded to demand repayment on the loan. Public records state that the loan was assumed in mid-June by Credit Suisse.

—Based on your knowledge of the bank's activities are the events described in this news story correct?

—Was this loan reported to officials of the Federal Reserve Board?

—Mr. Altman, was it standard practice for you to personally intervene to demand payment on loans?

—Why was the loan assumed by Credit Suisse?

THE SENATE SUBCOMMITTEE SUBPOENA

Question. Mr. Altman you testified before the House Banking Committee that you had advised on September 8, 1988, investigators working for Senator Kerry that Mr. Amjad Awan had been transferred to the Paris office of BCCI. You also testified

that it was your firm that informed the subcommittee in August of 1988 that the names on one of their subpoenas was incorrect and that in August of 1988 they knew that they really wanted to speak to Amjad Awan not Khalid Awan.

—Based on your knowledge of the case, who first made the suggestion that Mr. Amjad Awan be transferred to Paris?

—As BCCI's lawyers at the time, we you consulted in this decision?

—Mr. Amjad Awan has publicly stated that you, Mr. Altman, were responsible for the decision to transfer him to Paris. If you were not responsible for the decision, why would he specifically single you out?

—In retrospect, do you understand the concern that many have that the transfer of Mr. Awan gives the appearance of impropriety?

Senator BROWN. In addition, I have two other things that I would hope that we could include. One is a 3-page analysis from Tax Notes in the October 7 edition, dealing with the question regarding compensation, specifically, an area that we had discussed earlier today.

Senator KERRY. Without objection, so ordered.

[The information referred to follows:]

NEWS

NEWS ANALYSIS

The BCCI Blues: Clark Clifford's Potential Tax Troubles

People in the rest of the country think that New Yorkers are only interested in money and that Washingtonians are only interested in power. Nothing could be further from the truth. Washingtonians are just as obsessed with money as New Yorkers, only the latter are more direct about it. (In fact, it is largely this habit of being direct in all their dealings that irritates everyone else about New Yorkers. In the rest of the country, getting straight to the point is regarded as extremely rude.) Washingtonians are actually worse in one respect—when they sell their souls, they tend to sell them cheap.

Clifford and Altman should have reported compensation income rather than capital gain.

But now Clark Clifford, doyen of Washington lobbyists, and his sidekick Robert Altman, Wonder Woman's husband, eventually may be found to have redeemed forever Washington's reputation as a hotbed of low-rent sleaze. When they allegedly sold out, they sold out for a lot of money: about \$10 million from their bank stock deal, plus another \$45 million in legal fees for their law firm, Clifford & Warnke. Both Clifford and Altman have denied any wrongdoing.

This article explores possible tax treatment of the two lawyers' dealings in the stock of a company that indirectly controlled First American Bank. The article argues that Clifford and Altman should have reported compensation income rather than capital gain. What difference does that make if both capital gains and salary were taxable at 28 percent in 1988? Capital treatment allows for capital loss offsets. (Altman and Clifford appear to have made identical deals with BCCI, but some of the available documents concern only one man. For purposes of tax analysis, this article will treat the two as having made the same deal.)

Bank of Crooks and Criminals

If you have not read John Grisham's best-selling novel *The Firm*, do not bother. Get the September 11, 1991, House Banking Committee Minority Staff report on the Bank of Credit and Commerce International (BCCI) instead. It's engrossing, suspenseful, and better written, besides. The report argues that Clifford and Altman knew full well what BCCI was doing in the U.S. and aided and abetted BCCI in achieving its goals. The report drew its information from the Federal Reserve Board's in-

vestigation and various documents possessed by the House Banking Committee.

According to the report, several Arab investors whose purchases were financed by BCCI obtained control of the predecessor of First American Bank in 1982, Clifford and Altman having comforted the Federal Reserve Board that BCCI had nothing to do with the purchase other than acting as an investment adviser to the purchasers. The acquisition vehicle was a Netherlands Antilles holding company called Credit and Commerce American Holdings N.V. (CCAH)—the name of which raised federal eyebrows about the purchase. Clifford became a managing director of CCAH and the chairman of First American Bank. Altman became a director of First American Bank and president of First American Corporation, the direct parent of First American Bank. Clifford & Warnke were counsel to the bank, its parent, CCAH, BCCI, and other BCCI affiliates.

The Fed now believes that BCCI controlled CCAH from the outset, and that the investor group was a front to get past the Fed's refusal to permit BCCI, which it recognized was answerable to no regulator, to operate a bank in the U.S. The Fed also believes that BCCI was very active in the management of First American Bank, to the point that Clifford and Altman had to seek BCCI's permission to do certain things, like hire executives.

In July 1988, BCCI gave Clifford and Altman an opportunity to buy into CCAH pursuant to a highly advantageous rights offering, apparently by causing one CCAH shareholder, Mashriq Holding Co., to waive some of its rights to participate in that offering. The offering allowed investors to purchase CCAH common stock at its book value of \$2,210 per share; at the time, it had been selling for prices as high as \$4,000-\$5,000 per share.

BCCI guaranteed Clifford a profit on his CCAH stock and promised to gross it up for U.S. capital gains taxes.

Altman and Clifford bought 6,742 CCAH shares (2,247 and 4,495 respectively), representing about three percent of CCAH stock, in July 1988. They borrowed the nearly \$15 million purchase price from BCCI. The loans were nonrecourse 18-month notes at the London Interbank Offered Rate (LIBOR)—a rate rarely offered to individuals—with interest due at the end of the term. In March 1988, Clifford and Altman sold 3,200 and 1,600 shares, respectively, to Muhammad Hamoud, another CCAH shareholder, for \$5,800 per share. (For a description of Clifford and Altman's stock deal, see Potts, "BCCI Stock Deal: Was Profit Proper?" *The Washington Post*, Sept. 19, 1991, p. A1.)

Although CCAH shares are not publicly traded and, therefore, are difficult to value, it appears that a value of \$6,800 per share for CCAH was extravagant. Price Waterhouse valued the CCAH shares at \$3,100 each in a 1988 audit of BCCI. Clifford and Altman made \$9.8 million gross profit on the sale of CCAH stock in 1988, of which they kept about \$3.5 million after expenses and taxes. They reported the transaction as capital gain on their 1988 tax returns.

Fed exhibits recently released by the House Banking Committee indicate that BCCI guaranteed Clifford a profit on his CCAH stock and promised to gross it up for U.S. capital gains taxes. Clifford and Altman were not permitted to sell their CCAH stock without obtaining permission from BCCI. Correspondence between BCCI and the two lawyers indicates that BCCI had a "firm commitment" from "certain clients" to purchase any and all of Clifford and Altman's shares at the time the two bought their shares, and that BCCI would arrange for the sale of the shares at a price agreed upon by the parties. Basically, BCCI retained the authority to transfer the shares. The letters indicate that BCCI contemplated rolling over the debt should the shares remain unsold when the note became due.

According to the report, federal investigators believe that Altman's loan and stock purchase may have been merely a mechanism to give Altman the cash profit on the stock without him having to assume the risk of owning the stock. The report points out that Altman borrowed about \$6 million to purchase the CCAH stock, which he pledged to BCCI as collateral for his loan. When he sold his stock in 1988, he sold it to an Arab investor whose purchase was financed by BCCI. Altman received the proceeds of his sale not from the purchaser but by means of a wire transfer from the account of a BCCI affiliate in Grand Cayman. Altman immediately repaid his loan principal, interest, and commission to the account of a BCCI affiliate in Grand Cayman. Federal investigators call this mechanism a "round trip," and take it as an indication that the transaction was a sham. Clifford and Altman did, however, retain the right to vote their pledged CCAH shares, indicating some ownership rights.

Section 83 Analysis

Section 83(a) states that, if property is transferred in connection with the performance of services, the recipient is taxable on the excess of the property's fair-market value over the amount paid for it at the first moment that the recipient's rights in the property are either transferable or not subject to a substantial risk of forfeiture. Section 83 is very broad, and determines the timing and character of compensatory transfers of property. The discussion below deals with the section 83 require-

ments of: compensation; transfer; and restricted property.

The sale of stock to Clifford and Altman at an advantageous price was compensatory. Before the Senate Banking Committee on September 11, Clifford stated several times that the difference between what he and Altman paid for their CCAH stock and the amount for which they sold it was nothing more than their fee-return for services rendered to First American Bank. Even if Clifford had not made these admissions against his own tax-minimizing interest, however, the surrounding circumstances show that the stock gains realized by the two men were compensatory. Clifford took an annual salary of only \$50,000 to serve as chairman of First American Bank, and Altman took no salary to serve as its president. Even if he did not need the money, neither man was in the business of providing valuable services at no charge.

Clifford and Altman could argue that they did not perform services for Mashreq, whose waiver of its rights to the stock offering enabled them to buy the CCAH stock. The Fed believes that BCCI caused Mashreq to waive its rights in favor of Clifford and Altman, so that BCCI could be considered the transferor. Under section 83, the transferor of property need not be the employer of the recipient. Nor need the transfer be a quid pro quo for the performance of services; a presumption of compensation is raised if the recipient at some time in the past, present, or future performed services for the transferor.

The surrounding circumstances show that the stock gains realized by the two men were compensatory.

If a shareholder of a corporation makes a transfer directly to an employee of the corporation in compensation for services rendered to the corporation, section 83(h) and regulation section 1.83-6(d)(1) treat the transaction as a contribution to the corporation's capital by the shareholder and the use of the property by the corporation to compensate the employee. That the ultimate purchaser of Clifford and Altman's stock was another shareholder of CCAH adds to the compensatory effect of the transaction.

But there may have been no transfer within the meaning of section 83 because of the way the purchase was financed. If there was no transfer of property from BCCI or its affiliates to Clifford and Altman, then they were not in receipt of income in 1988. They could argue, based on regulation section 1.83-3(a)(2), that, because their purchase was financed with nonrecourse debt, it was the equivalent of the granting of an option, which is not considered a transfer of the subject property. A

NEWS

nonrecourse loan is like an option because the borrower can just walk away from it.

Whether their nonrecourse loan will be considered tantamount to an option depends on the facts and circumstances, the focus being on whether the two men had the risk of loss on the stock while they held it. Because the circumstances show that they did not assume this risk, they should have open transaction treatment as if they had an option. Nonetheless, the income they reported in 1986 would still be compensation rather than capital gain, because the option analysis would keep the amount of compensation open until the time Clifford and Altman paid their debts.

Though the regulations' treatment of nonrecourse debt may seem like a loophole, one should be reminded that the normal business corporation behaving in a rational way would not make this sort of loan. The company would seek to link its executives' personal wealth to the company's fortunes. It would make a recourse loan at market interest with all sorts of conditions designed to prevent the executive from walking away. One-hundred-percent financing, as Clifford and Altman enjoyed, is unusual because the normal employer wants the employee to be at some risk of loss.

If the stock purchase was merely a mechanism for the transfer of funds to Clifford and Altman, then step transaction theories apply.

Should the apparent guarantee of a profit on the CCAH shares accelerate Clifford and Altman's receipt of compensation into 1986? The apparent guarantee of a profit to each man does not affect the timing under section 83 because it does not appear to have been a funded and secured promise to pay. Because the stock securing the promise to pay was in the hands of the transferor rather than a trust or escrow, the two men were not in constructive receipt of income unless their ownership of the stock was unfettered, which it seems not to have been.

Another ground on which to argue that there was no transfer is the fact that the parties contemplated that the stock would be resold to the transferor's designee when the notes came due. Under regulation section 1.83-3(a)(3), no transfer may have occurred if the property is transferred under conditions that require its return upon the happening of an event that is certain to occur.

Even if there was a transfer, the CCAH stock may have been restricted property. The CCAH stock held by Clifford and Altman was not transferable without the permission of BCCI. Given the sort of operation that the Fed believes that BCCI was running, it is reasonable to believe that the

transfer restriction was genuine. But was the CCAH stock subject to a substantial risk of forfeiture? A "substantial risk of forfeiture" usually means that rights to the property are conditioned on the performance of substantial services in the future, which is a factual question. Clifford's testimony before the House Banking Committee indicates that the stock deal was in recognition of his past services to BCCI and its affiliates. Yet if Clifford and Altman were required to sell their shares back to BCCI if they decided to bail out, and then was a business purpose for this requirement, then that would constitute a substantial risk of forfeiture under *Robinson v. Commissioner*, 805 F.2d 38 (1st Cir. 1986).

What if BCCI's business purpose for the restrictions attached to the stock was intended to conceal what the Fed asserts are BCCI's violations of U.S. banking laws? Under a broad reading of *Bel Jones University v. U.S.*, 461 U.S. 574 (1983), it might be against public policy to give Clifford and Altman the benefit of deferred taxation under section 83 if the restriction was designed to aid and abet the violation of U.S. banking law.

Similarly, many courts have found public policy limitations on the sort of business expenses, such as bribes and kickbacks, that can be deducted. At least the IRS could argue that fostering a violation of the banking laws, if a violation could be proven, was not a business purpose that would uphold the restrictions. If the stock was not restricted property when Clifford and Altman bought it in 1986, then they would have compensation for the difference between the purchase price and its fair-market value in 1986, and capital gain on the difference between the 1986 fair-market value and the selling price in 1988.

Whether section 7872 should apply to the compensation-related loans to impute a higher interest rate depends on the relationship between LIBOR and the applicable federal rate (roughly the Treasury bill rate in this instance) at the time. Interest on Clifford and Altman's 18-month loans was calculated annually. LIBOR was about 6.2 percent in July 1986. The annual short-term applicable federal rate in July 1986, applicable to loans with terms shorter than three years, was 7.23 percent. The difference between the applicable federal rate and LIBOR should be imputed to the parties under section 7872, with the result that Clifford and Altman would have a larger interest deduction.

Open Transaction

If the stock purchase was merely a mechanism for the transfer of funds to Clifford and Altman then step transaction theories rather than section 83 apply. The Fed's concern that the transaction may not have been real is substantiated by a bizarre worksheet concerning Clifford's deal that was released by the House Banking Committee

The worksheet shows a "total amount payable" to Clifford of some \$21 million, which was to be used by him to repay two BCCI loans of some \$14 million and to pay capital gains taxes of about \$3 million.

The worksheet contemplated that Clifford would have about \$3.7 million when the dust cleared. It further indicated that the number of CCAH shares to be sold by Clifford was the number necessary to cover the \$21 million transfer at the agreed price of \$6,800 per share plus several sums that look like commissions to the bank and the buyer of these shares.

There is no reasonable compensation issue here. In hindsight, \$10 million looks like a great bargain.

If the BCCI loans to Clifford and Altman to purchase the CCAH stock were a sham, then the two lawyers would presumably not have a basis offset to the nearly \$33 million of gross proceeds they received on their asserted sale. Nor would they be able to deduct interest and commissions related to the asserted purchase. However, the transactions must be considered as one to show that the arrangement was a sham, so that only the net amount each man received in 1985 would be taxable to him. Clifford could argue that, even if the loan and stock purchase were not real, he is taxable only on the roughly \$7 million net proceeds from the integrated transactions and not on the temporary receipt of \$21 million. The character of this income would be compensation, given the surrounding circumstances.

There is no reasonable compensation issue here. Given that Clifford and Altman's real job seems to have been to keep the Fed off BCCI's scent—rather than to actually run First American Bank—compensation of roughly \$1 million per year for the period of their relationship is a reasonable price for their services. In hindsight, \$10 million looks like a great bargain.

Another compensation question is raised by Lynda Carter's Jaguar, a gift from BCCI. If BCCI gave her title to the car, the value of the car would be taxable compensation to her and her husband under *Duberstein v. Commissioner*, 363 U.S. 278 (1960). The tax rules regarding cars are so lenient, however—more of the great American hidden subsidy for driving—that if BCCI merely gave her the use of the car and retained title for itself, she and her husband would have no reportable income. ■

—Lee A. Sheppard



The House Bank: A Question of Interest

Adopting the suffix applied to all Washington scandals, the revelation of the check-cashing abuses of members of the House of Representatives has been dubbed "Housegate" on the editorial pages of *The New York Times* and "Rubbergate" on the front page of *The Washington Times*. Average citizens are outraged at the latest example of government officials getting sleazy privileges for which they are not eligible.

The sleaze is that House members have been caught writing bad checks on their own private bank that are floated until the member can redeem them. In its latest audit of this private bank, the General Accounting Office reported that members had cashed 8,331 checks over a one-year period—checks that were returned because of insufficient funds. The issue has a tax implication: Do the interest-free loans extended to the sleaze-writers constitute unreported income?

The bank in question actually is a private operation within the House Office of the Sergeant at Arms, subject only to House regulations. Its chief function is to cash checks and maintain noninterest-bearing accounts for the convenience of members. Congressional staff and reporters also may write checks on their own bank accounts for cash. Funds used to cash checks at the bank are provided by deposits made by the account holders.

Do the interest-free loans extended to the sleaze-writers constitute unreported income?

The GAO's September report, which covered July 1989 through June 1990, was not its first on the matter. It had identified the problem in a February 7, 1990 report and had recommended procedures to help Sergeant-at-Arms Jack Russ tighten the operation. Though the procedures were supposedly implemented in December 1989, the GAO said the bank was being run just as sloppily.

In the second half of 1989, 4,006 House bank checks were returned because of insufficient funds. In the next six months, after the procedures had been implemented, 4,325 were returned. "Just considering checks written for \$1,000 or more, we found that 134 account holders cashed 661 checks that were returned," the GAO said. The one-grand-plus checks were floated an average of a week before the account holder redeemed them, and "a few" were held up to four weeks.

House Speaker Thomas S. Foley, D-Wash., is getting roasted for refusing to reveal the names of the transgressors. Some members have admitted to various media that they were guilty of writing

Senator BROWN. And the last. I do not know if we reached an appropriate point with regard to the White House staff, a statement put out by the White House in that regard. I thought it made sense to include it in the record as well.

Senator KERRY. Without objection, so ordered.

Senator BROWN. Thank you, Mr. Chairman.

[The information referred to follows:]

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release

October 24, 1991

Governor Sununu has never discussed BCCI or Sheikh Adham Kamal with Ed Rogers. Governor Sununu has no role in monitoring the BCCI investigation in any way.

The Chief of Staff's office and the Counsel's Office confirm that there is no formal or informal group in the White House involved in, or monitoring, the BCCI investigation. The BCCI investigation is being conducted by the Justice Department. The White House has not, in any manner, attempted to influence the Department of Justice's conduct of this investigation.

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October 23, 1991

MUELLER

RSM:

As Assistant Attorney General in charge of the Criminal Division, I have had responsibility for overseeing and coordinating the various investigations into BCCI.

At no time has anyone at the White House sought in any way to influence these ongoing investigations. Moreover, to my knowledge Governor Sununu has had no communication with anyone at the Justice Department concerning these investigations.

BARR
WFB:

The notion that anyone at the White House has attempted to influence the BCCI investigations is utter nonsense.



Department of Justice

FOR IMMEDIATE RELEASE
WEDNESDAY, OCTOBER 23, 1991
10:00 p.m. EDT

CRM
202-514-2007
(TDD) 202-514-1888

Statement of Assistant Attorney General in charge of the Criminal Division, Robert S. Mueller, III:

"As Assistant Attorney General in charge of the Criminal Division, I have had the responsibility for overseeing and coordinating the various investigations into BCCI.

At no time has anyone at the White House sought in any way to influence these ongoing investigations. Moreover, to my knowledge, Governor Sununu has had no conversation with anyone at the Justice Department concerning these investigations."

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91-423

FOR IMMEDIATE RELEASE
WEDNESDAY, OCTOBER 23, 1991
10:00 p.m. EDT

AG
202-514-2007
(TDD) 202-514-1888

Statement of Acting Attorney General William P. Barr:

"The notion that anyone at the White House has attempted to influence the BCCI investigation is utter nonsense."

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91-424

Senator KERRY. Gentlemen, there are, I think, two principal areas that I want to try to make some inquiries about, and then I am going to try to see if we can move on. There are a few sort of loose odds and ends also that I just want to try to touch on in a few places.

Coming back to the question of sort of the nature of the involvement, let me just say that I think Mr. Altman, your statement about the changes that were made at the bank I accept, and I think the committee accept that indeed those were made.

The concern the committee had was that that happened in the wake of the 1988 drug money laundering indictment, when chills and alarm bells went off at BCCI, and what witnesses have told us—and the reason I ask this is not some sort of grand conspiracy theory that we are conjuring up. I assure you we are trying to separate what is grand and outrageous from what is reality.

But a number of witnesses have testified under oath and put evidence before the committee to the effect that what you really had happen was in 1988 with the drug money laundering indictment concerns were expressed in London and elsewhere about the exposure of the bank overall as a consequence, and whether or not that might draw the regulators like moths to the klieg lights—or politicians—and the result was that there was sort of a get-the-act cleaned up, not necessarily in First American, because frankly I do not think First American as a banking entity had those kinds of problems or had a need to get something cleaned up, but that outside of it, and particularly with respect to NBG—National Bank of Georgia and the Gaith Pharaon situation, coupled with his financial problems, which put the bank at exposure, it has been asserted by Mr. Sakhia by Mr. Rahman and others, that it was necessary to dump the bank and protect it.

Now, do you have any comment on that?

Mr. ALTMAN. Senator, I am puzzled. The National Bank of Georgia acquisition was completed in the summer of 1987, and these changes were effected immediately upon acquisition—this management change that I described—and those were effected immediately. BCCI was not indicted until October 1988, 1 year and 3 or 4 months—12, 13, 15 months later—so I do not understand the point. I am confused.

Senator KERRY. Let me come back to that, and I will try and tie it together in the context.

Mr. ALTMAN. OK.

Senator KERRY. The other pieces that have been brought to the committee's attention, again by the witnesses who have testified as well as by the Fed and others who have provided both documentation and information, is the ongoing sort of business relationship as it appeared to some.

For instance, turning your attention to document 13, there is a telex message that shows Mr. Sakhia had arranged for First American New York to get a deposit of \$4,200,000 for 6 months at slightly below market rates. That was sent to you, Mr. Altman, in Washington.

Then the next document shows in paragraph 2 of the enumerated paragraphs, all business passed on by BCCI to First American Bank, New York may please be reported to Mr. Afridi. So you have

had a sort of joint management relationship which people have alluded to.

Then the next document—this was the coordinating committee to which you referred that you had not heard of. There are other documents, and again, I am not going to go through each and every one of them here, because I do not think the moment or time provides for it, but there was this ongoing, very integrated exchange of deposits, of business, if you will, and Mr. Sakhia told the committee that from their point of view they did not mind taking a loss, or they did not mind putting the business there, because to them it was viewed as their business. They were going to get it through the relationship of First American to BCCI. Now, that is what they say. I think you have heard that testimony.

Mr. ALTMAN. I have heard part of Mr. Sakhia's testimony, and the committee can accept it for whatever weight you wish to give it. I have stated earlier, I take the strongest exception to many of the statements Mr. Sakhia has made, not just the one Mr. Clifford has identified, although I think that is indicative of the testimony.

Senator KERRY. Could I ask you, Mr. Altman, as an attorney as well as a participant in this, what motive you would attribute to Mr. Sakhia with respect to his testimony? Is there something that you have thought of? Is there a sense you have of what is happening here?

Mr. ALTMAN. There is, Senator. I am not sure that this is what you want me to go into in public session, but if you do I can.

Senator KERRY. I am looking at Mr. Bennett, who feels that it would be more advisable not to at this point.

Mr. BENNETT. Senator, yes. I think in fairness to you, the committee, Senator, there are certain matters that are under seal in Federal court, and as much as I would like Mr. Altman to answer, I do not think it would be appropriate for him, nor would it be in the interest of the committee.

Mr. ALTMAN. There are some other matters that are privileged that—and I want to be careful about making commentary which is not perhaps a commentary that should be offered in public, but there is certain information that we can provide the committee, I think, that might be illuminating.

Senator KERRY. May I ask you at this point in time, then, at least in open session, were you ever contacted, either of you, by members of the intelligence community of the U.S. Government?

Mr. CLIFFORD. I have not.

Mr. ALTMAN. Nor have I.

Senator KERRY. Do you know whether or not Mr. Abedi was?

Mr. CLIFFORD. I do not know.

Mr. ALTMAN. Nor I, sir.

Mr. CLIFFORD. I did not hear him say that he had been.

Senator KERRY. And was there any time in the course of any discussions with you when he alleged in any way that he was concerned about the CIA or about being on the watch list or any such matter?

Mr. CLIFFORD. Never in my presence.

Mr. ALTMAN. Never in mine.

Senator KERRY. And you never heard from any of the personnel within the BCCI community anything to that effect?

Mr. CLIFFORD. I did not.

Mr. ALTMAN. The first I heard about it was some reference Mr. Sakhia made in his testimony, to the best of my recollection.

Senator KERRY. Do you at this point have any knowledge with respect to the \$10 million Adnan Khashoggi note through BCCI?

Mr. ALTMAN. I do not know anything about it.

Mr. CLIFFORD. I do not. I never heard of it.

Senator KERRY. Was First American in any way used as a depository of intelligence community accounts?

Mr. ALTMAN. Senator, I don't have the specifics about it, but I do have an understanding that the CIA has maintained accounts at First American.

Senator KERRY. But you have no knowledge of any of the reasons therefore or the specific efforts that those accounts might have been part of or anything?

Mr. ALTMAN. No, I do not.

Senator KERRY. None whatsoever.

With respect to another area of inquiry with respect to BCCI, did you ever become aware in your dealings with National Bank of Georgia or with Mr. Gaith Pharaon of any involvement that he might have had or that the bank had with Centrust in Florida? Did you ever learn of that?

Mr. ALTMAN. I heard that, to the best of my recollection, after he sold the National Bank of Georgia he bought a large stake in Centrust. I think he was the largest individual shareholder. I think that is what I was told.

Senator KERRY. Do you know when that would have been?

Mr. ALTMAN. Our transaction was completed in 1987, so probably around that time period. But I wasn't involved in it. It is just something I had heard.

Senator KERRY. So you have no first-hand knowledge as to any BCCI involvement specifically with Centrust?

Mr. ALTMAN. That is a different question.

There is an investigation that was commenced, if I recall, it was with reference to a debenture or some issue that Centrust got out that either BCCI or Dr. Pharaon or both of them participated in, a \$25 million debenture. There is some allegation about that. I do not know the specifics of it, but I'm aware of it.

Senator KERRY. But it is only through the investigation that you have learned anything about it?

Mr. ALTMAN. Oh, yeah. I didn't know about it before all this arose. I wasn't involved in that. No, sir.

Senator KERRY. I just wanted to find out whether you were or not.

Let me come back now again to this question of who knew what. And I think it is very helpful to us as we have been proceeding to get a sense of where you stand with respect to what you understood was happening at the time and what others might have understood. Because some of the evidence that we have is obviously suggestive of something else. And one needs to know what it means.

I turn your attention, again, going back to this question of the mutuality of relationship, to document No. 14. Document No. 14 is a minute, minutes of the president, president Abedi's meeting with the Far East region senior executives in Hong Kong in April

1987.121 What he says there, this is a sort of transcript of his comments or excerpt of them. And he says, for me this is the event in importance only to one event that happened in September 1972 when this bank came into being. If I were to be honest with you, I think it is not second to that, but it's just as important to that. This bank—referring to BCCI—has become a significant banking institution in the committee of banks internationally.

You are now—speaking to all the assembled personnel there—you are now with the First American group of banks, at the moment over \$27 billion in assets. And we will be \$30 billion by the end of this year.

We are now being recognized in the brotherhood of international banks as an important factor to the banking system of the world.

At this meeting was Mr. Tariq Jamil from National Bank of Georgia or formerly therefrom, and other members of the BCCI/First American community.

Were you there, either of you, at that? Is this a document you have ever seen?

Mr. ALTMAN. To the best of my recollection, the first time we saw this was last night.

Senator KERRY. When you provided it to you?

Mr. ALTMAN. When you provided it to us.

Senator KERRY. Does it indicate to you, as it seems to to us, that Mr. Abedi is certainly not keeping a secret of the fact that he thinks he owns First American, that it is part of the family? And would you agree at least with that as his assertion?

Mr. CLIFFORD. I would have to add that I do not understand, Senator, when he says that, "You are now with the First American group of banks, at the moment over \$27 billion in assets." That is not us. I don't know what he means.

Senator KERRY. You had how much in assets? \$11 billion?

Mr. CLIFFORD. The highest we ever got was \$11.5 billion.

Senator KERRY. He is adding in all the 69 branches of BCCI. What he is saying is that the BCCI family, including First American, now represents \$30 billion worth of banking power.

Mr. CLIFFORD. Well, that doesn't add up either because by 1987 I would say that the assets of BCCI must have been \$20 billion.

Senator KERRY. Was that according to Price Waterhouse? [Laughter.]

We will figure that one out. I suspect it was a fluctuating total asset base. But who knows?

So at any rate, this is a mystery. Is that correct?

Mr. CLIFFORD. It's a mystery to me.

Mr. ALTMAN. It is to me. Obviously, we had some shareholders in common, but I can't explain this language.

Senator KERRY. Does it not strike you as extraordinary that in 1987 so publicly they are marketing? I mean, surely you would understand why Mr. Sakhia would come here and say it was no secret we owned First American. I mean, this seems to give some credibility to the notion that he had a reason to believe he thought that they owned it.

Mr. CLIFFORD. Senator, it was a secret to the Bank of England. And it was a secret to Price Waterhouse. It was a secret to us. It was a secret to the Fed. So there were a great many people—

Senator KERRY. Actually, Mr. Secretary, and I do not want to—I am not here to just contradict you, but it was not a secret to the CIA in 1982 because they moved a memo through the agencies of Government saying First American, BCCI has bought banks in the United States. Did you read that memo?

Mr. CLIFFORD. We would give a great deal if only we could have been told about that memorandum in 1982.

Senator KERRY. I am sure you would. I have no question about it.

Let me move on to the next document, if I can, Mr. Altman, it is No. 15. This was a deposition taken with respect to the Virginia Bankshares case in 1988. And in it you were asked on page 17 of the memo, it is the second page of the 3-page memo, you were asked about your communication with the investors of CCAH. And you were asked, is there any particular investor with whom you communicate on a regular basis as opposed to other investors. You said no.

Do you communicate with all of them with equal frequency? You said no. Is there an investor with whom you communicate with greater frequency than others? You said no, there's no particular pattern to it. Sometimes some of the investors call me or at times I will contact one of them. At times I will contact all of them. Do you recall that testimony?

Mr. ALTMAN. I don't recall specifically this testimony. But I accept what the transcript says.

Senator KERRY. The reason I ask you that is because one of the questions raised in the House and one of the questions raised publicly is how often these investors appeared and really were dealt with and so forth.

And if you turn to the next document, which is a First American Bankshares document, No. 16, a letter to Mr. Fulaij. It is a notice from Secretary Clifford to the shareholders about an important meeting, excuse me, about a meeting to discuss important developments at First American Bankshares. And the meeting was to be held in London on October 23, 1990.

The question I ask is, turning to the next document, No. 17, you invited in your letter each shareholder to designate a representative to attend on their behalf if they could not attend. A representative did attend representing the government of Abu Dhabi, Sheik, then Sultan, Al Nahyan Zaied.

And his report to Shaikh Zaied said as follows:

The meeting was attended by Mr. Clark Clifford and Robert Altman from First American. The shareholders or their representatives present were H.E. Kamal Adham, Mr. Gauhari, Mr. Fulaij, and myself. The meeting was opened by Mr. Clifford who gave a background of First American and its progress to date.

It was pointed out by Mr. Clifford that the contact maintained by First American and its shareholders were through Mr. Aga Hassan Abedi, who acted as a liaison between both parties. And this was the first time that an attempt was made to contact the shareholders directly.

Now that seems to contradict the notion that you had been in touch with them previously. It seems to contradict the notion that the shareholders knew that Mr. Abedi was the contact because you were informing him of that fact at that time. And I am just, again, just left with sort of why, why does this appear this way that there is a first meeting, for the first time there is a contact in 1990 when

nevertheless these people were supposedly participants on a regular basis.

Mr. CLIFFORD. Let me take a cut at it.

Mr. ALTMAN. Fine.

Mr. CLIFFORD. I think the wording that Mr. Azad has used is incorrect. When he says, this was the first time that attempt was made to contact the shareholders directly. I think what he means to say is this is the first time attempt was made to contact the shareholders in person, which is very different.

We had contacts with the investors starting in 1982. But this is the first time——

Senator KERRY. So I take it there had been no meetings of the shareholders in person previously.

Mr. CLIFFORD. We had meetings with some of them in person. But I do not recall our ever having a call for all the shareholders to come or their representatives. Do you?

Mr. ALTMAN. I think a couple of comments, Mr. Chairman.

First, with reference to the memorandum, which again I saw for the first time last night, I agree with Mr. Clifford's interpretation. Although obviously we didn't write that.

Incidentally, I think it is addressed to the chairman of a private department and not to Shaikh Zayed himself.

But in this case——

Senator KERRY. I stand corrected. You are absolutely correct.

Mr. ALTMAN. Mr. Azad who worked for that private department was new to the matter. He didn't have a lot of the background that others had because this was really the first time he had become involved with the First American investment.

Going back to my testimony that you made reference to, I say I don't know the number of times I've talked to any particular investor. I believe over the years I would have talked to Shaikh Kamal Adham more frequently than any other investor. But it is just a guess.

And what happened that gave rise to this meeting and the report on this meeting that you are reviewing in the document, is that BCCI had served as the communications link. It is interesting that we did not have direct contact with Shaikh Zaided through the years. We had our contact through Mr. Abedi. And Shaikh Zaided is considered, to our understanding by the Federal Reserve, as a legitimate shareholder. So this concept of communications link and investment advisor worked in his case.

Senator KERRY. Let me say for the record that at least this Senator is convinced. I am not sure of the rest of the committee, but I think it is clear that Shaikh Zaided was, indeed, a legitimate investor.

Mr. CLIFFORD. And very likely the two other Abu Dhabi parties, one of them Prince Khalifa and the Abu Dhabi Investment Co.

Senator KERRY. And I think there is no question that they had significant sums at stake. And that is evidenced in a number of different ways here.

Mr. CLIFFORD. Right.

Mr. ALTMAN. In that regard, I would just say so that the point is clear on the record, from our standpoint, that is, I think, speaking for the management of First American, we had no way to distin-

guish between shareholders. We did not know that there were two groups of shareholders, some nominees, some legitimate. And the use of Mr. Abedi as a communications link and as an investment advisor was an appropriate use and one that worked in the case of these shareholders who are believed by the Federal Reserve to be legitimate shareholders.

What happened, however, was that in 1990, in the spring, BCCI was acquired by the Abu Dhabi interest. And the management group that had been in London moved to the Middle East. It left London and moved to Abu Dhabi. And in the summer of 1990 I had a meeting with Kamal Adham in London and I said that we had been using Mr. Abedi as our communications link, but Mr. Abedi, of course, is because of health no longer involved. And Mr. Naqvi who we were using on a limited basis thereafter is not going to be around. And BCCI is not going to be a major operation. And we need a new means of communicating with this group.

Kamal Adham suggested, A, that he would as he had been the informal chairman of the group so-called for many years, accept that responsibility. And, further, he thought that we should have meetings at regular intervals. And he suggested that a representative of Shaikh Zaiid, given their financial interest in the property, they were the second principal investor, should be invited.

And so an invitation was also extended to a Mr. Mazrui, who was the chairman of this department which managed the ruler's investments.

We decided to have such a meeting. We extended an invitation to all shareholders who wanted to attend. It was going to be, in effect, a new approach to try and create an effective means of communicating with these people since the link that we had utilized for some 8 years was being severed and was no longer effective. Therefore, these letters went out.

This memorandum reflects the fact that Abu Dhabi wished to attend the meeting and they sent Mr. Azad, who as I say had not real background in it at the time, although a knowledgeable individual, sophisticated man, he was sent to the meeting so that he could get the report and take it back to the Abu Dhabi shareholder group.

Senator KERRY. Let me turn to Senator Brown and then I am going to come back and perhaps be able to wrap up my set. Let us see where he goes. Senator Brown?

Senator BROWN. Thank you, Mr. Chairman.

I have just a few brief areas that I wanted to cover. The first dealt with compensation.

In your statements originally you had mentioned that the compensation was very modest, referring, I think, to the compensation from First American where you served as chairman and president, respectively.

Mr. CLIFFORD. That is correct, Senator.

Senator BROWN. I thought it would be helpful for the record to go through and accumulate what we can in terms of compensation. As I understand it, Mr. Secretary, your compensation was limited to \$50,000 a year as chairman.

Mr. CLIFFORD. Yes, and remained that way all through the 9 years.

Senator BROWN. And, Mr. Altman, as I recall the testimony, you did not take a salary for acting as president?

Mr. ALTMAN. Mr. Clifford, as chairman, received a retainer. I received no salary and no retainer. I did receive director's fees for serving on the boards.

Senator BROWN. Can you give us an idea of what those would have amounted to over that period?

Mr. ALTMAN. I would think that—they would be the fees that were paid to all directors of the company except for inside directors.

Senator BROWN. I do not mean to put you on the spot. If that is something you want to supply later.

Mr. CLIFFORD. I have a recollection that the directors were paid \$12,000 a year basis. And then they received a fee for attending meetings, which may have been \$500 or so. So it was in the area of \$12,000 to \$14,000 a year that was paid to the directors.

Senator BROWN. Which is a standard arrangement for boards of directors.

Mr. ALTMAN. Yes, sir.

Senator BROWN. In addition, we have already talked about the stock transaction. And as I review the records, the combined before-tax gain of both of you is \$9.85 million.

Mr. CLIFFORD. That's correct.

Senator BROWN. And after tax, that was reduced to somewhere near \$4 million.

Mr. CLIFFORD. Yes, I think mine was \$2.7 million and Mr. Altman's was \$1.3 million. So the total was \$4 million after taxes.

Senator BROWN. And in addition, both of you would still have stock ownership of the, was it roughly 40 percent that you retained?

Mr. CLIFFORD. Yes, and that was paid up in the transaction that took place there, the stock that we had remaining was paid up.

Mr. ALTMAN. In that regard, Senator, in 1989 there was another rights offering and Mr. Clifford and I each subscribed for some more stock. This was after we had held the balance from selling the first block that we had purchased.

We bought some more stock in 1989. And incidentally, that stock was not financed by BCCI. There were no loans, in fact, from a bank. And then in 1990 there were convertible debentures that were issued by the company in an effort to raise capital and Mr. Clifford and I each purchased our pro rata portion of those convertible debentures.

Senator BROWN. Of the stock that you had purchased originally, which appears to me to be 2,200 shares for Secretary Clifford and 1,100 shares for Mr. Altman, do we have a way of coming to a figure as to what that would amount to? It looks to me if you value that at \$6,800, which was the figure we used earlier, that that comes close to \$22.9 million.

I guess the question is—

Mr. ALTMAN. We would be glad to sell them at that price.

Senator BROWN. Yes. What is an appropriate price at this point, do you have a feel for that?

Mr. CLIFFORD. I wish to make two points.

One, the fact that we had one transaction at the \$6,800 figure did not set a price at that time. In very narrowly restricted sellings of unlisted stock, one sale does not set a price. We mentioned that earlier. Different prices are agreed at depending on how much the buyer wishes to pay for the stock.

So that one transaction came and went.

Now with the stock that we own today, unfortunately, there is no way to value it. For the conditions that exist today result in that. The stock is widely distributed, but we don't know where it is. Some of it may be held by the liquidators. Some of it may be held by Abu Dhabi. We do not know. I don't believe anybody knows where the stock is distributed today.

Also, the value of the stock, obviously, is much lower because of what has happened to economic conditions in this country. Just as illustration I was checking some figures in this relationship. Riggs in 1988, that's the year when we made our sale, Riggs stock was selling then at 48, excuse me, was selling then at 26 and as of now, August 1, it was selling for 8, so there's been that amount of decline.

The other one that I noted, which is one of our main competitors, that's the Maryland National Bank, that stock was selling for 48 in 1988 and on August 1 of this year it was selling for 4½. That's the precipitous decline that has taken place in bank stocks in this area because, mainly, of the collapse in real estate values.

Senator BROWN. Do you have a feel for what book value would be?

Mr. CLIFFORD. Today? It's come down.

When we first bought our stock it was \$2,200 and in the next 4 or 5 years it worked up very close to \$3,000. Then came the precipitous decline in bank stocks and the loss in real estate values, which caused us to take our first loss in our 9 years in 1990. All the banks then suffered substantial declines in book value.

I don't know even now if it would be \$2,000. It probably is less.

Mr. ALTMAN. It's approximately \$2,000 a share, although, Senator, you would understand that most bank stock today, unlike the case in 1988, sells at a substantial discount from book value. That is, Mr. Clifford indicated by the numbers, say, from Maryland National, one of the biggest banks in the area, selling at \$4 a share, or Riggs at 8, something like that.

Senator BROWN. Well, as I went through this, if I have read the record correctly—and I guess I presented it so that you, perhaps, will straighten it out in this process. The law firm—your law firm provided legal services and received fees, presumably, from a number of parties in this area. BCCI, Bert Lance, CCAH, CCAI, FAC, FAB, the parties you represented in the original takeover of the FGB, and there is some indication in the record that you may want to comment on that you had the ability, at least, to designate other law firms to handle BCCI business. I do not know if that resulted in referral fees or not. Would all of those be correct? Were those fees at the law firm received of all of those entities?

Mr. CLIFFORD. Let me give the part of it that I know about.

Senator BROWN. I've given you a long list.

Mr. CLIFFORD. I think I can get to it quickly. The representation started at the time the litigation began. That would be back in

1977, so that the relationship with the investors began then. The litigation lasted maybe 3½ years.

When the litigation was over, the investors indicated that they wished our law firm to continue to represent the properties which the investors now owned. As you are already familiar, there were three Shell companies at the time for tax purposes, CCAH, CCAI, and First American Corp. Then comes First American Bankshares and the investors ask that we represent all of those whenever they needed counsel.

Most of our services were rendered to the operating holding company, First American Bankshares, and that stated out at a lower figure when the bank was not so large, and as the bank expanded, then the cost of legal services expanded. The fact is our law firm served as the legal division of First American Bankshares. They didn't have to go out and hire lawyers. We supplied them with the lawyers.

I would give you a little idea of the overall picture. I would say that through the 9 years, if I tried to average it, I would say that about each year the total cost of lawyers to First American Bank Group ran between \$10 and \$12 million a year, and of that figure the amount received by our firm would average about one-tenth of that, or maybe \$1 million a year.

Senator BROWN. That would include the First American Bank Group. Would it also include the fees from BCCI?

Mr. CLIFFORD. No. That would be a separate matter, and those fees were nothing like the fees that we charged First American Bank, because there wasn't nearly that much work to do. We had no regular work for BCCI.

At the end of the year, we would look back over it and figure the items on which they would call us. They were not very many. It would just be an occasional matter that came up that they would call on us, because they used White & Case, sometimes Sullivan & Cromwell in New York, Morrison & Foerster in San Francisco, Holland & Knight in Florida.

I think, as a matter of fact, they used them a good deal more than they used us, and also if I might just insert a parenthetical comment, oftentimes we have been approached with the thought, well, you must have known what BCCI was doing, because you represented them. That does not follow. They used us only on selected matters. We were not their general counsel, and just to put it succinctly, they told us only what they chose to tell us. That is the situation.

Senator BROWN. I appreciate, in looking at these figures, that the amount of billing is obviously different from what the take-home pay might be from these kind of services. I thought it was important to get a feel for the volume that was involved.

Mr. CLIFFORD. That is correct, sir.

Senator BROWN. I had a question about referral fees. Did the firm also receive compensation for referral to other law firms?

Mr. CLIFFORD. I know of no such situation. I do not know of any case, in all the years we have had our firm—41 years—that we have ever charged a referral fee for a matter which we have referred to another firm.

Mr. ALTMAN. And incidentally, so that the record is clear, Senator, we did not have the authority to designate a law firm for BCCI, but we would recommend law firms to BCCI. They had to make the decision to accept it, which they would do in cases where we were called upon, but it was not our authority to pick their law firms.

Senator BROWN. You had also mentioned in your testimony that there were no financial improprieties in the way First American was managed under your leadership. We had testimony earlier that one of the traits or characteristics of BCCI was to seek to gain favor or a working relationship with political leaders, and in that regard they made donations to charities, they made payments to the individuals involved, and a variety of other things. I thought that was an area that would be helpful to try and put on the record.

First of all, let me ask, was it First American's practice to loan money to political campaigns?

Mr. CLIFFORD. No, it was not.

Mr. ALTMAN. As a matter of fact, Senator, my recollection is that at our request they adopted an express prohibition in the lending policies from doing that. We did not think that was a business that First American should be in.

Senator BROWN. Senator Kerry and I both appreciate why that might be considered a somewhat risky business.

Senator KERRY. Speak for yourself.

Senator BROWN. I will speak for myself. [Laughter.]

Did First American loan money to political campaigns?

Mr. CLIFFORD. No; not to a campaign that I've ever been conscious of.

Mr. ALTMAN. The only instance that I'm aware of, we at one time became aware that there was a loan which we had no prior knowledge of that had been made to, I think it was then Senator Hart, Gary Hart. That was one instance that we had adopted a policy, and I'm not clear about that loan. I think that loan was paid off. We had adopted a policy that we did not want to be in the business of making loans to finance campaigns.

Senator BROWN. Was that after the Hart loan, or do you recall?

Mr. ALTMAN. I don't recall, but I know it was something that was a holding company directive. We did not believe it was an appropriate business for First American. Even though we were not sitting on loan committees, we asked that our banks not be involved in that kind of lending, and I think that's reflected in the loan policies, although I don't have them.

Senator BROWN. So as far as you know, that was the only one that you recall?

Mr. CLIFFORD. It's the only one that I ever heard of, and I think we inherited that.

Senator BROWN. What about to political leaders themselves? Can you give us an idea if that was a practice of the bank?

Mr. ALTMAN. First American was one of the dominant banks in Washington, DC. There are really three major banking institutions in this market-by-market share—First American, Sovran, and Maryland National—and I am confident that all three banks, as well as others, such as Riggs, have loans to people who are involved in Government and politics, but those are not political loans. If

someone needs a car loan, or someone needs a mortgage loan, they certainly aren't disqualified because they're in political or governmental, service, so I'm sure we do.

Senator BROWN. To your knowledge, were any of the loans to political leaders granted at or granted involving special treatment? That is, lower interest rate than normal, less security?

Mr. CLIFFORD. I have never heard of such a case.

Senator BROWN. I know the House bank used to assist Members in finding loans to finance. I hadn't realized that the service wasn't needed at the time. Was First American a referral bank for the House—the House Sergeant at Arms Office? Are you aware of that?

Mr. ALTMAN. I am not aware. I was unaware of the House bank until the recent publicity, and I'm unaware of whether they ever referred any customers to First American.

Senator BROWN. Did the bank ever engage—make political donations with the bank's money?

Mr. CLIFFORD. Not that I ever heard.

Mr. ALTMAN. No, sir, not to my knowledge. Individual offices can do as they will, but not as a corporate matter.

Senator KERRY. Thank you, Senator Brown.

Senator BROWN. Thank you.

Senator KERRY. I just want to come back to one thing you said, Mr. Altman. You mentioned that you did loan—that the First American had an account for the CIA, or accounts therefor. How did you learn that?

Mr. ALTMAN. It came up in a conversation I had with the chief financial officer, where he indicated to me there are certain authorities that are granted to banks that have those kinds of accounts, and I became aware that we had some of those accounts at First American. I don't know.

Senator KERRY. Do you remember when it was, approximately?

Mr. ALTMAN. It was this year.

Senator KERRY. This year. And what kind of authorities was he referring to?

Mr. ALTMAN. It was who is entitled to handle those accounts. There are certain requirements that the banks have to follow for special accounts, but I didn't get into the specifics. It's only when you ask the question I am aware that there were certain relationships.

Senator KERRY. Now let me ask you something that's been a puzzle to a lot of us, as exprivate sector attorneys and now as public officials—the \$45 million cost of litigation on the money laundering. Your firm acted as the paymaster, in a sense, for that, and I believe one or both of you was sort of the head of the team, and you had Mr. Banoun and Mr. Wechsler and others below you and then a tier of lawyers in Florida.

But when one looks at the payout on that, starting in 1988, November 30, 1988, with \$1 million paid out, November 30, 1988, a separate payout of \$650,910, 1 month later another \$1 million paid out, the same day another \$1,032,000, so in the first 1½ months you have got close to \$4 million out.

Then you've got a series over 1989 of payments of \$900,000, \$595,000, \$1 million, \$1.1 million, \$1,843,000, \$1.1 million, \$750,

\$583, \$1.35 million, \$500, \$334, \$1,338,000, \$1,250,000—this is all 1989, and it still goes on: \$1 million, \$1.2 million, \$2.1 million, \$2.3 million—that's 1989.

Then you go into 1990, and you have got \$335, \$643, \$250, \$693, \$1 million, \$1 million, \$909, \$1.3 million, \$1 million—and so it goes, through 1990. Those are mind-boggling payouts, I think, to anybody just sort of sitting here. Can you shed some light on what happened in the course of this litigation that was so expensive and what people did and who received this money?

Mr. ALTMAN. Let me try. First, Senator, you have used a figure that we heard also before House Banking, and that is \$45 million. I'm not sure where that number comes from.

Senator KERRY. Well, it's the total of all the numbers I just read out to you. BCCI payments from Legal Defense Fund, managed by Clifford & Warnke, statement dates, and there are a series of statements with specific amounts. BCCI's board of directors authorized payments for the legal fund to be handled by First American.

Mr. ALTMAN. I don't have a copy of that document.

Senator KERRY. This is a document from the House Banking Committee. Have you not seen that?

Mr. ALTMAN. No, sir, I have not.

Senator KERRY. This was the House. I think this came up in the House, which is why—

Mr. ALTMAN. Well, they used the figure in the House, and we didn't know how it was computed.

Senator KERRY. Well, they've got the payouts here.

Mr. BENNETT. We never got a copy of that, Senator.

Senator KERRY. Well, I'll get a copy to you right away. It may be inaccurate. This is what I'm trying to find out.

Mr. ALTMAN. Let me give you a couple of observations, if I might. The amount of money that I'm aware of—now, I haven't studied these figures, but the amount of money that I understood was paid in connection with this general effort was half that—approximately \$20 million.

That money was not expended simply on the defense of the Tampa proceedings. The money went to law firms. The money—a substantial portion of the money went to Price Waterhouse, and the money went to various other kinds of costs, and let me give you a feel for why.

After the Tampa case was announced, BCCI then had substantial legal problems in a number of parts of the world. There were investigations that were commenced in London, there were investigations that were commenced in Luxembourg, investigations in France.

In addition, there was a general belief, as the evaluation was made of BCCI and people started taking a hard look at BCCI, which we had the opportunity to do for the first time, it was clear that BCCI's operating controls and procedures were seriously deficient, and a substantial amount of time and money was spent analyzing their controls and writing new kinds of controls, controls that would prevent money laundering abuses in the future, Bank Secrecy Act violations in the future, a large number of controls that one would have thought that a bank—these were then agen-

cies, but agencies that had been operating for this period of time would have had in place.

Senator KERRY. You know what I think we can do to try to save some time here, excepting that, what would be helpful to the committee is if you could provide us with some sort of a correlation of these payouts to entities, and I think that would resolve—I don't think we need to spend a lot of time on it.

Mr. BENNETT. We're pleased to do it, Senator. I think there may be a confusion of accounts, but I'm not sure of that.

Senator KERRY. There may well be. I want to make it clear, I don't know with specificity what this is. This is a document that came from the House. It has the statement dates. I can't even tell you with a certainty that each and every one of those figures belongs in the legal fund, but this is based on testimony, may I say, of a number of the bank personnel who have said that was the amount that they paid, and it cost them, and there is some information from the bank itself that has argued this amount of money.

Mr. CLIFFORD. There's another factor involved. When the indictment came down, that was in the fall of 1988. It not only indicted BCCI, but they indicted nine employees of BCCI, and BCCI made the decision, which corporations sometimes do, to also extend and pay for lawyers for each of the employees.

So it isn't just bills to BCCI.

Senator KERRY. No, I understand that.

Mr. CLIFFORD. Every one of those individuals had to have a different law firm, and every one of those lawyers felt it was very important that he give a lot of time, and I'm sure there was a lot of duplication, but there was more than one.

Senator KERRY. If I had a bank paying the bills, I'd give it a lot of time, too. I'm just saying, \$1 million per defendant in a case like that, assuming—I mean, that only gets you halfway to the 21 on the individual defendants, and it's an extraordinary sum of money per defendant.

Mr. CLIFFORD. It's also been suggested that, in occasional pieces that we profited greatly from this matter. The fact is, not one penny of that fund came to us.

Senator KERRY. I appreciate that comment. The committee didn't ask that question, and we haven't alleged that.

Mr. ALTMAN. I would just note for the record, Senator, that trial went on for about 6½ months, and as you know, legal costs are quite high.

Senator KERRY. I understand that. All we are looking for is a breakdown so we can understand that.

Mr. ALTMAN. Right. We'll be glad to.

Senator KERRY. Now, coming back again—and we are going to get through here before too long. This is not a deposition, it's a hearing, and it reminds me why I am glad I'm not doing depositions, I'm doing hearings.

But let me ask you a few other areas of concern that have been written about publicly as well as testified to here. The annual conferences and your participation in them has been an issue of concern which has been expressed on a number of occasions.

People have said well, Mr. Altman was in Vienna at the conference, or Mr. Altman was in London at the conference, and I choose

Vienna particularly because in 1984 Mr. Roy Carlson of the National Bank of Georgia was there, and people were there from the BCC Foundation, from the National Bank of Georgia, from a whole bunch of individual affiliates.

The question is, you've testified earlier that you've sort of had some feelings about the similarities of National Bank of Georgia with BCCI. You saw that it had the same structure, the same logo, the same this and that. Now, we are told by individuals that Mr. Carlson would talk openly at these events about his relationship, the sort of being part of the family, and my question to you is whether or not you ever learned or even had greater suspicions as a consequence of these international conferences that there was some deeper relationship between the National Bank of Georgia and BCCI than met the eye?

Mr. ALTMAN. Senator, the conference to which you make reference is 1984, the Vienna Conference. I'd be glad to explain for the record, if you like, why I attended, but if that is not the focus of your inquiry—

Senator KERRY. That's not the focus. The focus is really whether or not you got a sense in the course of Mr. Carlson's and NBG's link and the nature of its relationship to the BCCI?

Mr. ALTMAN. I don't recall hearing Mr. Carlson speak at any conference. I never spoke at the conference, and in 1984 I was not really aware of the manner in which NBG operated. I became aware of it when we took an interest in acquiring the property, and then we got very deep into the manner in which they operated when all this became quite apparent to us, but back in 1984 I gave them no real attention.

Senator KERRY. In 1986, Mr. Afridi and you and Mr. Elley attended a Luxembourg BCCI Conference.

Mr. ALTMAN. Right.

Senator KERRY. Was that of the same nature? You've testified, I know, previously, and I said I don't want to go back through everything you've already got on record, but was that simply part of the relationship that you testified to earlier in terms of communication, or was there another reason you were there?

Mr. ALTMAN. Well, I was there for a couple of reasons, I suppose. I was invited to attend. BCCI was then a client, of course, and BCCI also had a close relationship with the owners of First American, and as a matter of good relations, both as a client and—they did parenthetically invite lawyers who represented them over the years to attend some of their conferences, so this was not unique to me, but both because they were a client and because they had a relationship with the shareholders, I attended the conference.

I think it's important to note that these were not meetings where BCCI's secret business or strategies, or even much business at all, was discussed. Perhaps you've had testimony as to the nature of the conferences, but they were largely philosophical in nature, if I might call it that.

Mr. Afridi attended the conference. He was working on international for our New York bank. He and Mr. Elley both had contacts with BCCI because they had come from that organization, and when he returned from the conference he wrote a memo to Mr.

Duncan, the CEO, detailing the amount of business that he was able to obtain as a result of going there.

One of the things we constantly tried to do was to compete for BCCI's business, most of which went to Security Pacific and Bank of America and these other banks, and we were very eager to try to handle that business because it was profitable to us.

Senator KERRY. Mr. Secretary.

Mr. CLIFFORD. One year, we sent Robert Stevens, who was president and CEO of First American Bankshares, and he took a box of his cards with him, and it was his job in 2½ days or so to try to find the manager of every one of the 70 banks at BCCI, give him his card, and say, if you ever need a banker in the United States you now know me, and please get in touch with me. He said he gave away every card he had.

Senator KERRY. Did you have this kind of relationship with any other bank in the world?

Mr. ALTMAN. We had a lot of correspondent banking relationships.

Senator KERRY. Did you go that conferences, and were you in a consecutive way as much a member or a partner—I know you don't want to use those words. As much of a presence?

Mr. ALTMAN. There was no other bank where we attended their conference. This was something unique to the way they operated, where they invited the people in.

Senator KERRY. Why do you think the National Bank of Georgia was there all the time?

Mr. ALTMAN. My understanding was that Dr. Pharaon owned the National Bank of Georgia. He was a major shareholder of BCCI, and he wanted his people exposed to BCCI concepts. That was kind of the rationale that was given.

Senator KERRY. It never struck you that the fact that it was always NBG and First American and BCCI from, what, 1982 to 1989, 7 years, that people weren't gaining something out of that—a sense of affiliation, a sense of unity, the kind that's been described in the terminology put forward?

Mr. ALTMAN. First of all, Senator, one correction, if I might. It was my understanding that the last such conference was held in 1986, 5, nearly 6 years ago. They didn't continue throughout the years.

Senator KERRY. You bought the National Bank of Georgia, correct, in 1986, 1987?

Mr. ALTMAN. We bought National Bank—no, I'm saying that BCCI conferences, where people came and attended, were not—you indicated they went on for 7 years.

Senator KERRY. The relationship. I'm not saying the meetings went on, but the same kind—if it wasn't a specialized conference, it was a specialized referral. If it wasn't a specialized referral, it was—for instance, why did you put a \$75 million certificate of deposit in ICIC?

Mr. ALTMAN. A couple of points. You've raised separate problems.

Senator KERRY. These kinds of things keep cropping up.

Mr. ALTMAN. First, First American and BCCI did have a connection that First American and Citibank did not have, and that is, we

had our shareholders, who also had a substantial financial stake in BCCI, so you have this at the ownership level, this overlap, so there is a relationship there that is different than a relationship that existed with other U.S. institutions. This, parenthetically, was also known to the regulators at the time.

Mr. KERRY. That is an important question. What you are saying to us is that it is your interpretation that the Fed signed off on that. I mean, that is what I am hearing now.

Mr. ALTMAN. It was expressly provided. They asked us and we gave them that information during the regulatory proceedings.

Senator KERRY. I realize that, but taking the Muckenfuss letter, which is the Comptroller of the Currency, went to the Fed. The Fed made its decision and you are really saying that the Fed approved of precisely what followed. Is that correct?

Mr. ALTMAN. No, sir. I wouldn't say it quite that way. I'm not sure, when the acquisition was made, anybody could ever say precisely what's going to happen or even generally what's going to happen with—for the next 10 years, but the Federal Reserve had a specific overriding concern, and I think it's important to get this on the record, because whatever happened at BCCI and whatever happened to the stock of this company—and these are matters that we don't know—but the Federal Reserve had some specific concerns. They want to know who was going to run First American. Is BCCI running it, is this American board running it; and we said, this American board is going to run it. We are making the decisions. We are not controlled by BCCI. And the Federal Reserve has now stated several times recently, after all their audits, that that is true.

Senator KERRY. That is true as to First American in 1990.

Mr. ALTMAN. Well, they came in in 1991.

Senator KERRY. In 1991, but it looked back at the operation which had fundamentally changed in many ways.

Mr. ALTMAN. Well, the other point that I want to make is, you are indicating that BCCI was managing our business or directing business or somehow assisting us and that isn't the way this operation went. Now I don't know what was in BCCI's mind and I can't attest to what some of those people said, or what they may have done unbeknownst to me, but you can talk to every director at First American, you can talk to every CEO at First American, and they will tell you BCCI did not run or control their business.

I heard Mr. Sakhia's testimony, which was one of the few portions of it that I heard—was—and considered with some amusement, when he indicated that BCCI was this very professional, skilled, efficient organization that had to deal with First American, which was kind of a bureaucratic, bumbling organization, the way he described it. I think our record would speak for itself. I don't have to—it's another one of the areas of Mr. Sakhia's testimony that I think the committee could look at more closely.

We ran First American, we made the decisions. We ran it honestly; we didn't need assistance from anyone else. We competed for BCCI's business, most of which went elsewhere despite our competitive efforts, although over time we were able to get it. The amount of business that BCCI may have referred to us, while I haven't analyzed it, I would suggest to you is minimal. They weren't even in

the businesses that we were in. Our primary business was retail banking, it was banking to small businesses, real estate—more real estate than perhaps we wish we had now. BCCI wasn't in this business and they sure didn't know these businesses as well as our professional bankers.

Senator KERRY. With respect to that sort of business relationship, let me just ask a couple of other questions on the acquisition of NBG.

You asked Mr. Scaffone—is that the correct pronunciation, Scaffone?

Mr. ALTMAN. Yes, sir.

Mr. CLIFFORD. Right.

Senator KERRY. Scaffone, to analyze the acquisition or potential acquisition of NBG, and he came back with that fair purchase price of 2.5 book value, which worked out to \$160 million?

Mr. ALTMAN. \$211 million.

Senator KERRY. \$211 million, with cash of \$160 million and \$51 million of CCAH stock. Correct?

Mr. ALTMAN. I'm not sure where you're getting that number. He has—there is a—under tab 20 of my book, Senator, there is Mr. Scaffone's memo, dated May 7—

Senator KERRY. Correct. That is what I am looking at.

Mr. ALTMAN [continuing]. 1986, and he says: It is my opinion that a fair purchase price for NBG would approximate 2.25 times book, this would yield a purchase price of \$211 million.

Senator KERRY. Right. And on the next page he suggests \$160 million in cash, \$51 million through stock.

Mr. ALTMAN. Oh, I see where you are.

Senator KERRY. OK. I am just splitting it up. It is \$211 million. Now, I gather the ultimate sale price was \$250-million something?

Mr. CLIFFORD. No. That's too high.

Mr. ALTMAN. The ultimate sale price was \$227 million, but that is there's a wash item in there. The actual price that was agreed upon was \$210 million. There was a \$10 million debt that owed to Dr. Pharaon, and the sale price was increased and the debt was forgiven, which made an effective sale price of \$210 million, but it was reported as \$220 million.

Senator KERRY. That is why I wanted to ask you that, because in your letter to Mr. Naqvi that you wrote, and that is the next document on May 8, you had suggested to him that you hoped you could negotiate, quote, "your paragraph 7." It is hoped that negotiations would produce a deal for \$160 million to \$175 million in cash with no stock. Mr. Scaffone provides information concerning various other bank sales, but it is clear we are nearing the point at which this purchase is too expensive. Now, why did that suddenly change? What happened to make it \$220 million, when \$175 million with no stock was deemed to be too expensive by you?

And, you see, the reason this sort of gets flagged again is that people keep getting out of these transactions with their full obligations paid. In other words, Mr. Pharaon needed x amount of dollars to get out of there, to pay his note and to not have any exposure of BCCI in the event that people came after him for his failing businesses. So to get him out and cover it, in fact, on the paperwork, it works out that if he got the \$225 million, BCCI is no longer ex-

posed. So the question is, why did you, if you thought the price was too expensive, let it go up so that he got out free and clear and BCCI is happy, if you are purchasing this bank on your own?

Mr. ALTMAN. Let me state unequivocally, we were purchasing the bank. This was a decision that we made. And let me explain also that I'm unfamiliar with the financial situation of Dr. Pharaon, so I can't comment on whatever lending arrangements he might have had. I had some different understanding at the time about his situation, but that may not be relevant or accurate.

What happened, and it often happens in corporate acquisitions—I think American history is replete with these kinds of transactions—we got into a competitive bidding situation. NCNB, North Carolina National Bank, a very aggressive bank, also had identified—the National Bank of Georgia—they had a strategic concept, as we have subsequently discovered, virtually identical to our own. They thought it made sense for the same reasons we thought it made sense and they started bidding against us. They flew to France—the team of them flew to France. They met with Dr. Pharaon and they upped the bid, and the bids kept going up. They made a bid of \$210 million, roughly. I think it was \$4 million worth of their stock, then trading at 52 and a fraction.

Senator KERRY. This is NCNB?

Mr. ALTMAN. NCNB, so they made a bid of \$208 or \$210 million and if we wanted the bank, we had to match the bid. That's what happened.

Senator KERRY. Now, they—

Mr. ALTMAN. And NCNB would confirm for you that was their bid.

Senator KERRY. Now, just a point of curiosity, I am reading the next sentence here—and we have never seen a written bid from NCNB. Why would you expect to see a written bid from NCNB, if NCNB is competing against you for an independently owned bank and you are writing Mr. Naqvi, the only thing you could expect is that Naqvi was going to let you see their bid so you could know how to counter. Would that happen in a transaction like this?

Mr. ALTMAN. I think the point I was making is, we are hearing that NCNB is getting into this and getting very aggressive, but we're upping our bid and we're talking millions of dollars without having real confirmation that this is what NCNB—

Senator KERRY. Well, how would you get that confirmation? Would you ever see a written bid from NCNB?

Mr. ALTMAN. No. I would not see it. I was just commenting.

Senator KERRY. Well, why did you write that, that you would say we have not seen it, unless you expected Mr. Naqvi to show it to you?

Mr. ALTMAN. I don't know if, in fact, NCNB made a written bid. The point that I was making, I am observing here that we haven't seen anything in writing. All we know is that Dr. Pharaon keeps telling us that the bid is going up, and whether he is telling us that accurately or not, we don't know. We'd like to see some confirmation before we start competing against ourselves.

Mr. CLIFFORD. I might interpose this thought there. We later learned from NCNB that they did make that bid, and I think it

came to \$208 million. But their bid was in stock. Our bid was in cash.

Senator KERRY. I know that NCNB was interested in it, but it is no question about the legitimacy of their interest. The question is, because of other testimony we have had which suggested that Mr. Abedi wanted your bank to buy it, and that the decision had been made in Florida to do so, that NCNB was a harassment here. They were sort of in the way and the way in which the shareholders were able to now not make this too expensive, was because BCCI loaned them the money in order to beat the NCNB bid so that they could buy. And that is ultimately what happened. They loaned them the money, did they not?

Mr. ALTMAN. I don't know if BCCI loaned them the money or not.

Senator KERRY. Well, that is what you testified to in the House. You said that you came up with the extra money, and the way the extra money came up was through BCCI. Excuse me, not through BCCI.

Mr. ALTMAN. No, sir. I don't think I said—

Senator KERRY. I am sorry. I apologize. I am incorrect on that. Where did the extra money come from?

Mr. ALTMAN. We did a rights offering in 1986 and we did a second rights offering in 1987.

Senator KERRY. But this was to the existing shareholders of CCAH?

Mr. ALTMAN. Yes, sir.

Mr. CLIFFORD. Correct.

Mr. ALTMAN. And the first rights offering was for \$150 million, and the one in the summer of 1987 was for \$115 million.

Senator KERRY. But was not some of that offering taken up by loans to those shareholders through BCCI?

Mr. ALTMAN. It may have been. We don't have that information.

Senator KERRY. I think it was. I think that is what I am referring to. So in effect, BCCI enabled you to make that sale, or to make the purchase by virtue of your shareholders, who were all part of this family, being able to buy over the NCNB bid.

Mr. ALTMAN. Even if it is correct, and I accept what the chairman says, even if it's correct that the shareholders borrowed the money from BCCI, I would have to say I see nothing impermissible about doing that. If our shareholders want to buy NBG, and if they are meeting the market price as set by a competitive bid situation, however they raise their money, as long as these are legitimate loans and not shams, it's not a prohibited transaction.

Now, there were representations made to regulators about the source of that funding and would have to be consistent with those representations. I do, Senator, want to go to one fundamental point, however, and that is the testimony that this committee received that Mr. Abedi made the decision for us to buy the National Bank of Georgia.

Perhaps rather than hear from Mr. Clifford and me again on the subject, it would be helpful if I were to read to you from an affidavit, from one of the directors of the company at the time. His name is Lee Jenkins. He was the president of a New York Stock Exchange listed company. He was, incidentally, a man who was very

skilled in mergers and acquisitions, very financially astute and sophisticated, and he says the following in his affidavit: With respect to the acquisition of the National Bank of Georgia, the board was presented with the relevant financial data and was apprised of the status of the ongoing negotiations throughout the acquisition process. The agreement to acquire NBG was approved by the board of FAB's parent.

One of the principal reasons for FAB's decision to acquire NBG was that NBG's central location in the Southeast satisfied one of the bank's long-term strategic objectives of expanding in the southeast. I, and I believe the other directors concluded, that the purchase of NBG represented a unique opportunity and was in the best interests of First American Bankshares. BCCI had no influence on my conclusion, nor to my knowledge on any other director's conclusion that the purchase of NBG was in the best interests of the First American organization. To my knowledge, BCCI did not in any respect cause First American to acquire NBG.

Senator KERRY. There is a way to explain that, as there is everything in this, and it is that once a decision had been made to try to effect it, you obviously had to get a board of directors and other people to approve it and go through it. There is not any question about that, and I am sure BCCI did not touch any of them in the effort. Probably it was a good deal, and I am sure for First American, it made a lot of sense, but in terms of the testimony originally made by Sakhia and Rehman, and some of the documents, it just raises the question as to it. You have answered that and I am not trying to suggest to you that—but it is hard. It is hard to pick one's way through that, because there is not a total relevancy to whatever happened to the board of directors decision.

Mr. CLIFFORD. If I might add one factor. There has been criticism of First American for expending this amount of money to acquire the National Bank of Georgia. People who make that criticism just do not understand what happened. We had a rights offering in 1986 that produced \$150 million. We had a rights offering in 1987 that produced \$115 million. So there came to us, from the investors—then I have to add and/or BCCI, because we don't know which is which during that period—but there came from the investors and BCCI, a total of \$265 million from those two rights offerings.

The money that we paid to buy the National Bank of Georgia came out of that \$265 million, so we end up with BCCI going broke, all this thing in a terrible mess—we end up owning the National Bank of Georgia and we didn't put any of our own money in it.

Senator KERRY. Let me—

Mr. ALTMAN. Excuse me, Senator. Well, one other comment I would make for the record, you made reference to Mr. Sakhia. I think it's noteworthy that Mr. Sakhia was very careful. He did not say he was in any meeting where he heard that decision made.

Senator KERRY. Let me just say for the record—and it is something I meant to observe that day—the committee is well aware or at least the chairman is well aware that Mr. Sakhia was careful to choose where he was involved and where he was not, and we understand that Mr. Sakhia himself might be under investigation. We know that with respect to the Bilbazi coffee smuggling case, there

are issues. We understood that before he came here, and we sort out what he says in that context.

In an effort to speed this hearing, I am going to submit a number of questions in writing. I do not want to sit here and nitpick at some of the stuff that has to be asked because it is there and it has been raised. The committee is not going to be capable of doing its job if we do not have the answers and there is not a record there to deal with it.

One other issue that is of concern to the committee and I know, gentlemen, that you were aware that we were somewhat concerned about it, because we articulated it at the time and that was the response postsubpoena, the question of the production of documents and the whole issue of Mr. Amjad Awan. There is a memo that came to our attention recently through this process of discovery which was originally covered by attorney/client work product privilege. It came from the confidential file of BCCI. It is one of the documents that you have. I think it is document No. 39. No, excuse me. 42, and it is a document which involves our committee and our work in reference to the subpoena served on you and Mr. Banoun in July 1990.

Now, I notice an error immediately right there. In fact, there was no subpoena served you or on Mr. Banoun only a request that you testify at a hearing on BCCI, which you resisted at the time. Subsequently, the memo raises an issue about—suggesting, in response to the subpoena as the source stated that Altman and Banoun are opposing the subpoenas, doing everything within their power to call in political markers. That maybe Altman and Banoun will succeed in quashing the subpoenas and so forth.

Would you share with the committee, please, what if anything, you did commensurate with what is asserted in this memo, with respect to the committee's subpoena and request for documents?

Mr. ALTMAN. The first time I saw this memorandum was last night, Mr. Chairman. I had seen a reference to it in some news article recently. I have no idea what the author is talking about when he talks about calling in political markers. As you have observed, I was not under subpoena, and to the best of my recollection, I didn't talk to anybody on the Hill about this particular matter.

The committee had scheduled a hearing in the summer of 1990, in July. Mr. Banoun was on vacation, out of the country. I believe he got in touch with your staff. There were some issues that had to be resolved relating to attorney/client privilege and the like, and Mr. Banoun worked those out with your staff, but I was not calling in political markers or doing anything to try to quash the subpoena. I don't even believe I responded in writing to the committee to ask for any delay.

Senator KERRY. Do you know who, if anyone, contacted Senator Hatch with a speech defending BCCI?

Mr. ALTMAN. Yes.

Senator KERRY. Who did that?

Mr. ALTMAN. Well, there were several people. This would have been in the winter of 1990.

Senator KERRY. This was right after the plea bargain, I believe.

Mr. ALTMAN. Right around that time. Senator Hatch was a member of the Judiciary Committee at that time and had taken an interest in this particular case. He had wanted a briefing on the case originally, and I knew Senator Hatch and I went to see him, along with the attorneys of record. I think it was then Mr. Wechsler and Mr. Barcella. Mr. Banoun may have been there, I'm not clear about it. Senator Hatch indicated that he felt the criticism that was being made of that plea was unjustified and he was intending to make a floor speech about it and asked for information.

I know that he also contacted the Justice Department. I think he got briefings from them, although I'm not sure of that, before he made that speech.

Senator KERRY. Recently, an article in the National Journal quoted Mr. Banoun as saying that the subcommittee was, quote, "outlawyered," after previously advising us that he wanted to cooperate with us and that was his goal. That is OK by me, but my staff is outraged. Do you know what he meant by outlawyered with respect to the process of production of documents and cooperation?

Mr. ALTMAN. I do not, sir. I know that Mr. Banoun felt that the original subpoena was not well drawn, a matter that he discussed with Mr. McColl of your staff, but I don't know what he had in mind.

Senator KERRY. You do not have any sense beyond that?

Mr. ALTMAN. No.

Senator KERRY. Was there any intentional withholding of information about BCCI for any purpose?

Mr. ALTMAN. No, sir, and no intention to mislead this committee.

Senator KERRY. What happened with respect to the Noriega checks? We had requested a number of checks indicating Noriega—there was a production of some four checks, after some considerable period of time. We now have some 40—35 checks, I think it is, all drawn from First American. These are items—item 41. These are all checks drawn on or passed through, I believe. I guess the question is, these were in the country and we received notice that there were not were none in the country and then, later on, only through the liquidators—ultimately through the liquidators, they provided this, and so that gives rise to this question of why that was not originally provided. Can you shed any light on that?

Mr. ALTMAN. I think I can, Senator. When a subpoena is issued to a corporate client, the lawyer necessarily relies on that client to advise whether there are responsive documents; and at the time, we were advised that there were no responsive documents within the United States, and subsequently, when it was determined that there were documents that relate to Mr. Noriega within the United States, an effort was made to get BCCI to find these records and produce them.

It is my recollection that BCCI's records were so chaotic that we had BCCI, as a customer of First American, make a request of First American of every check ever written so that someone could go through the checks and find out if there are any checks that are responsive. And I have not seen the documents here. This appears to be from the checkbooks that have indications of Noriega that are not on the checks themselves. I wasn't involved in this particular search, but I can only say to you that a lawyer has to depend

on the client to at least give him the universe of files so that a review can be made for responsive documents.

Senator KERRY. Who gave that advice? You said you were advised. Do you know who?

Mr. ALTMAN. Well, originally—originally what happened was that the subpoena was issued in the summer of 1988 and a meeting was held in Miami with a number of BCCI officials, including Mr. Awan, and Mr. Awan—that all of the BCCI officials told us was the only person who knew information about the Noriega account—they all said they didn't have any information about it, they knew of the relationship—but they said he is the one who has the information.

Senator KERRY. Did you meet with and talk to Mr. Awan?

Mr. ALTMAN. I did, and he said that very directly to me.

Senator KERRY. With respect to Mr. Awan, as you know, there have been a number of people who have alleged that he was told to leave the country, and I know you have commented publicly on that once before, but I want this record to address the issue.

Mr. ALTMAN. Good.

Senator KERRY. Mr. Sakhia, again, testified that he had heard from two or three different people the same thing. Was there any such instruction to Mr. Awan?

Mr. ALTMAN. I'm glad you raised the subject, Senator, because I want it on this record. I want it every place the subject has been raised. I think it is unfortunate that it has been raised and the record here should be very clear. The original subpoena that was issued by this committee was directed to a Mr. Khalid Awan. That subpoena was served on a Mr. Khalid Awan in Miami. In mid-August, August 16 and 17, as I recall, 1988, we went down to Miami; I, together with two other lawyers from the firm, to go over the specifications of the subpoena and to see if there are responsive documents. When we—when we got down there, we realized that the subpoena was directed to the wrong person. In fact, what happened was, as I recall it, I looked him up in the phone book and I called this individual who said, yes, he had been subpoenaed. He didn't know what it was all about. He had nothing to do with BCCI. It clearly was a mistake.

We immediately, I believe we did the very same day, called the committee, spoke to, I believe it was Kathleen Smith on the staff and advised that the subpoena had been misdirected.

I suggest that this conduct is wholly inconsistent with the notion that when we learned someone is trying to serve Mr. Awan with a subpoena, we tell Mr. Awan to get out of the country.

Now, we interviewed Mr. Awan and Mr. Awan in point of fact had very helpful things to say about the issues that the committee was investigating. Mr. Awan stated quite flatly that BCCI was not a bank that was engaged in drug money laundering. It is the kind of information we certainly want this committee to hear.

The problem was, Mr. Awan expressed quite clearly that he was afraid of Mr. Noriega. He was concerned about his personal safety, and he was fearful that if he testified, reprisals would be taken against him.

The management of BCCI in response to this indicated that they were going to transfer Mr. Awan to Paris in order that he might

have a lower profile and lessen the risk of reprisal or injury from Mr. Noriega.

But this was not a matter that was kept secret. By coincidence, on the day that Mr. Awan has his taped undercover conversation, and that was September 9, we had a meeting with the staff of this committee. And we advised the committee at that time that Mr. Awan may be transferred to Paris.

So we were not keeping this a secret from the committee, and the effort here was not to prevent Mr. Awan from testifying. The concern was, as Mr. Awan states in that same undercover taped conversation, quote: "The reason being that if I say anything about Noriega and it is reported by the press, I am dead. He is going to kill me."

Now that is what Mr. Awan was saying to us at the time and when we talked to the staff of this committee, we were told that this was not fanciful, that indeed there were true risks about making disclosures relating to Mr. Noriega.

We advised the staff of this impending transfer, but we suggested to the staff that if they truly wanted to understand BCCI, and I might note that the staff had told us when we first got into this in August 1988 about the allegations about BCCI and we then go to BCCI and ask them about it, and we hear a dramatically different story, totally inconsistent with the allegations.

And we said, this committee should talk to the senior management of BCCI and hear from them directly. They were very convincing. And we suggested to the staff that they go to London and they meet with a Mr. Rizvi who is in charge of all of these operations in this hemisphere and Mr. Naqvi, and we said if they would make that trip and if Mr. Awan is transferred to Paris, then Mr. Awan can come over and give his testimony. You are not going to be deprived of your testimony.

But the point I am trying to make is, there was never an effort to prevent Mr. Awan from giving his testimony. There are two other items I would note. The first is that Mr. Awan resigned from BCCI in mid-September because he had plans of his own in terms of his career, and he retained separate counsel. He was no longer with BCCI, and indeed I understand he retained counsel that was recommended to him by this staff.

He gave that testimony at the end of September 1988 and just as he had with us, he represented to the committee under oath, no money laundering and the like. So it is the kind of testimony you certainly would want the committee to hear.

And one final note that I think also is pertinent, under United States Code, given Mr. Awan's resident status, he was equally subject to subpoena in London and Paris as he was in Miami. It would have the same legal force and effect, but I am glad to have the opportunity to put this on the record, and I thank the chairman.

Senator KERRY. I think it is important, particularly before this committee, since we are subject of the inquiry obviously. Again, for the record, I just want to ask the question, were any documents transferred out of the United States to the London office to avoid production, to your knowledge?

Mr. ALTMAN. To the best of my recollection, I never heard that. I asked one of the other lawyers in the firm the other day when we

heard, I think it was Mr. Sakhia make that allegation, and I think it was the first time he had ever heard it as well.

Senator KERRY. And again, I want to ask this because I think it is important and the record needs it, allegations were made with respect to the chairman of this committee being called in order to delay matters. I know that this Senator never received any delay instructions from the chairman, but I want to ask you if any phone calls were placed to the committee or in an effort to try to derail this process somehow?

Mr. CLIFFORD. Not by me.

Mr. ALTMAN. No, sir. You are aware——

Senator KERRY. There was one phone call seeking a delay in which Mr. Gerry Christiansen was contacted by somebody, is that accurate?

Mr. ALTMAN. There was no effort to derail this process. There was a 30-day extension granted, a routine extension——

Senator KERRY. Do you recall who was talked to in seeking that?

Mr. CLIFFORD. I did that. Mr. Altman was on the west coast and the matter came up about our needing more days. The original subpoena allowed us so few days to gather a very substantial amount of documents. The subpoena had been issued by Senator Pell. His name was on the subpoena. I called Senator Pell, told him the matter, and he said he knew nothing about it, I should call Mr. Christiansen.

I called Mr. Christiansen, and Mr. Christiansen said, I will look into it. Mr. Christiansen then perhaps called your staff or a member of your staff and the matter seemed very reasonable and so I think a 30-day continuance was granted.

Now a very malicious story was planted by someone at that time. I am sure you are familiar with it, and the malicious story was that this action on my part was done in order to sidetrack the investigation because if I could get 30 days more, then the tenure of the committee would expire, totally untrue.

So when that statement appeared in the Wall Street Journal, I have oftentimes wondered where they get such a malicious interpretation, Mr. Christiansen wrote a letter to the editor of the Wall Street Journal, and I won't read it, but it says that Mr. Adams asserts that Senator Claiborne Pell, chairman of the Senate Foreign Relations Committee, frustrated efforts by the committee special counsel, Jack Blum, to investigate information relating to BCCI's role in laundering drug money for Manuel Noriega.

Specifically he state that, quote: "Clark Clifford pulled strings with Senate Foreign Relations Chairman Claiborne Pell to stall production of crucial documents past the expiration date of Blum's contract with the subcommittee."

Next sentence: That statement is categorically false. That occurs in Mr. Christensen's letter. Then he says, he goes on to tells about it, and he says that after the 30 days was granted, there still remained 6 months of the committee's life within which anything could have been done.

So no mistake was made by somebody in planting that story with the Wall Street Journal, it was purposely and maliciously done.

Senator KERRY. Let the record show that Gerry Christiansen contacted Richard McColl of my staff and Dick McColl is the one who

authorized it and acted as if it was pro forma, so I never saw any great conspiracy in it, but you are correct, it has been built up as one.

I would like to draw this in. There are some, there are, as I say, a number of questions we want to submit for the record. But here we are, we have an extraordinary tale that has unfolded. Two distinguished, capable, well-thought-of lawyers who are claiming victimization by this thing, individuals within the bank who are indeed victims, some of them claiming it, who knows, distinguishing between the pure victim and the claims, but they are there.

You have two witnesses who have come before this committee who are prior bank employees of longstanding who have made allegations.

You have Price Waterhouse that by everybody's account messed this thing up to a fare-thee-well. You have the Bank of England that missed a lot of signals, but also has deemed BCCI to have been, quote: "Culture of criminality."

You have operating practices that either were with the Fed's blessing or weren't, but no matter what, you have this sort of integrated operation going on. You have a National Bank of Georgia purchase which like it or not has turned out to have ties to BCCI through Ghaith Pharaon and the question of stock that was pledged and questions of ownership.

You have notice through articles and the regulators back in the late 1970's that you had serious issues about nominees and not necessarily that came to your attention, incidentally, I am just sort of summing up what people are looking at now.

You have the goals and the aims of BCCI as articulated and enunciated by Mr. Abedi in many meetings, as evidenced through the minutes which we have read today. You have got the annual conferences and sort of this family gathering over a period of years which included NBG, First American, et cetera.

You have questions about the setting of price and the transactions on a sale, again, sort of an insider, family operation. You have the use of a flexible front man or two here or there, people who were never met as investors and so forth. You have documents indicating possible BCCI deep involvement in a number of transactions of question and so forth.

Now all of these things have been explained. And my question to you is not to question your explanations, but to say, what do you learn from this? What are we going to learn from this? Where are we in your eyes as a consequence of all of this? What does it mean to you? Did you wear too many hats? Have you learned a lesson perhaps with respect to being lawyers for all of these entities, and that there was a conflict in your capacity to always represent the interests as fully as you might have liked to now in retrospect?

Were eyes shut to something along the way here? I mean, what does it mean, other than it is obviously a horrible, harassing, ugly, painful event which both of you would rather not have had any part of, but what does it mean in terms of us and the whole process, if you can shed some wisdom on that at this point.

Mr. CLIFFORD. Let me direct my attention to that, Senator. On June 1 of this year, I had practiced law for 63 years. In 63 years there had never been a cloud against my name. That was no acci-

dent, particularly 41 years of practice in Washington. I took the greatest and most particular care to refrain from getting involved in matters that might have effected my reputation and my character.

I suggest to you that after building up that record, the furthest thing from my mind would be to permit myself or my partner to become involved in some criminal conspiracy. There was no evidence, evidence of any kind to me that any such element appeared. I wouldn't have touched it with a 100-foot pole.

To suggest that I would involve my own reputation is bad enough, but even worse, that I would bring in old, respected friends like Senator Symington and General Gavin and my friend, Quesada, other men of that stripe and nature and involve them in the kind of mess that BCCI has gotten into, I suggest is unthinkable. It just does not tally with one's understanding of human behavior.

Now as far as our not recognizing what was taking place, you may rest assured that I have combed my memory over and over and over in that regard. I do not recall an instance, I do not recall any act on the part of anybody, I do not recall any evidence being brought to our attention which would alert me to the criminal conspiracy that was going on.

At the same time, I still have an uncomfortable feeling about it. Why didn't I sense it in some way? I would have wanted to. I have sensed it in other instances in past experience. So that is a purely personal approach to it, but it helps you understand it better.

Now as far as the committee is concerned, I think the committee has rendered a unique and invaluable service to the country. You have brought out the extent of the machinations perpetrated by BCCI. That is a splendid public service.

Now what must we do about it? I think it can be prevented in the future. I think that this can be a situation that can be turned to our country's advantage. It could happen again.

Mattingly, Virgil Mattingly in testimony before a committee said: It is not too difficult to deceive if you really put your mind to it and if the deception takes place outside of the United States. I agree to that, but there is within the body of Senate bill 1019 the structure and the machinery by which this can be prevented.

I think that Mattingly's suggestion that a special unit be set up and when a foreign bank wishes to enter the United States, that special unit goes into action, and gets the facts that we didn't have, the Fed didn't have, the Congress didn't have.

So I honor you. I honor the Senator who took—for rendering this service. I want it to lead to a change in the law so that it will not happen again, and in that way, a great many people would be benefited even Altman and Clifford would have benefited had it been in existence.

Senator KERRY. Mr. Secretary, I appreciate your comment, but with respect to the hats issue, have you thought about that a little more? I mean, if someone is the president of a bank, and you are also counsel to the bank and you are also counsel to an outside bank with whom you are doing business, let us presume that the outside bank entered into an illegal activity for the purposes of this question, and you became aware of it and you are counsel to them.

Your duty is to them, obviously, to protect their interests and rights, but those rights may well conflict with the rights of the shareholders of the bank that you are president of. There are 10 variations on that, which as lawyers you both can dream up and imagine.

And I wonder if, in retrospect here, you don't sit there and say, hey, you know, that wasn't a good idea or I wouldn't do that again. Do you have any feelings about the multiple hats?

Mr. CLIFFORD. Yes. These representations flowed very naturally from the 3½ years of litigation. We occasionally did legal work for BCCI. That was perfectly appropriate. The assignments they gave us were legal assignments, oftentimes regulatory matters.

So there was nothing about that representation that in any way in my opinion was reprehensible. I do not think that that had any conflict with the representation of the other units that were involved.

The major factor here that controlled it all was that the investors led by Kamal Adham wished us to take these different positions in assisting them in their efforts. They wanted us to be counsel to First American. They wanted us to be counsel to the three Shell companies. That was their request.

They made a specific request that I become chairman of the board. I think the fact that those functions could be performed together led substantially to the unique success that First American had. We had the information there among those of us who were charged with the stewardship.

Senator KERRY. Senator Brown, we are going to try to wrap this up, so I just wanted to turn to my colleague for a moment.

I think he has perhaps just something to enter into the record.

Senator BROWN. I sent to you through your attorney a copy, a portion of the House Banking Report that dealt with wire transfers from Panama, BCCI in Panama and the allegations involving Secretary Clifford.

It struck me that those were two areas that you may wish to comment on and that I think we would be interested in your comments. We are in the process of wrapping up and what I would do is simply invite you, if you would, to submit your comments to both of those, specifically, what you know about the wire transfers and second, the allegations that appear on pages 21 and 22. They are significant areas and I think your observations would be helpful to us in those areas.

Mr. CLIFFORD. We shall do so, Senator, and do it promptly.

Senator KERRY. Mr. Secretary, throughout my political lifetime, I have heard you give a lot of good advice and obviously you have made many contributions. I must say to you that I can't find myself agreeing just with your last comment on the hats issue, and it is—I think just personally that there is an inherent problem with any attorney serving as the president of the bank and as counsel to the bank.

I mean, let us assume that the president of the bank himself, and this is not the situation, but if the president of the bank himself were engaged in embezzlement and were the counsel to the bank, there is no way for that attorney to represent the interests of both.

Inherently, there are management decisions and conflict in trying to implement a management goal which sometimes runs counter to what legal advice might want to. It is that old notion that only a fool represents himself and I think you are not that at all, and no one has ever, ever, ever possibly thought that.

So I just find it very difficult to find how you can be still so sanguine about the notion of that multiple representation, but that is indeed your judgment which you have every right to, and I just personally have difficulty doing that.

I would like to see, Mr. Bennett, if we could try to work on the issue of those documents which the committee hopes to be able to get at some time, and we would like work that out with you. Do you want to respond to me? I don't want to have the last word. If you want to say something to me, I am not trying to cut you off, I just—

Mr. CLIFFORD. Only this, President Truman had a saying that he would use from time to time, he says, the man with hindsight has 20-20 vision, and that applies in this instance. I am not referring to your comment.

But in the climate that existed through that 9 years, the arrangement that we had worked exceedingly well. We didn't have to employ a lot of outside lawyers. We maintained a very economical operation. We watched the dollars that we spent. There was not lavish entertainments of any kind. We didn't waste the shareholders money.

This was a very meticulous, tight operation, and we could do it with the group that we had at the direction of the people and I say only to you, for 9 years, it proved to be a unique success.

Senator KERRY. I respect that. Is there any issue that you feel you did not address that we didn't give you a chance to or that you wish to make as a comment before we close out?

Mr. ALTMAN. I would make a general observation, Mr. Chairman, and that is that this committee has heard testimony from other witnesses and I don't want to take the time to be specific about our rebuttal to allegations that have been made, but in general, I would say that the allegations that relate to misconduct on our part, I want the record to be clear, that we deny them totally and completely.

I find it curious, given the reports that we now have about BCCI, that they have very senior managers who are now appearing before this committee and making these reports, that they were unaware of certain things, but Clifford and Altman had to know them.

I find that a rather curious observation on their part. But so that the record should be clear, we do not accept those allegations, and if there is any particular question about it, we would like to have the opportunity to respond. There have been suggestions made by certain witnesses that we were engaged influence peddling and the like, in order to protect BCCI. Those are totally untrue.

There are suggestions that have been made that we condoned obstructions of this committee's efforts or investigations of BCCI. Those are totally untrue, and the record should reflect that that is our view, and as I said, we can detail it.

I would conclude with one observation: There certainly have been failings here, that is evidence from the enormous controversy

that has erupted in the dreadful year that Mr. Clifford and I have each spent.

But the system did not fail entirely and I think it appropriate to conclude with an observation: In this instance, the regulatory authorities have a fundamental objective and that is to protect the deposits of American citizens.

And First American, you see round the world, BCCI depositors standing in line, losing enormous amounts of money. It is a terrible tragedy and we feel for those people, but First American, as the regulators have said, was run honestly. We think it was run properly. There was no bank that failed. There was no U.S. taxpayer bailout at First American and no depositor at First American ever lost a cent.

So the regulatory authority in this regard did achieve the most fundamental purpose that these regulatory agencies were created—and I think you have to credit them for that ultimate objective.

Senator KERRY. I appreciate your comment. I am going to let you have the last word here.

I know this is a difficult process. I also hope observers will have a sense that we haven't pulled any punches here. We have asked the tough questions that I think had to be asked, but at the same time, I hope you feel that it has been done fairly and appropriately and with that, we will leave the record open for the submission of any further questions in writing, and I thank you for your appearance today.

We stand adjourned.

[Questions submitted to the witnesses by the subcommittee were not responded to at the time of publication. Attorneys for the witnesses have advised the subcommittee that the answers would be provided in February 1992, at which time they will be included in a subsequent volume of these hearings.]

Mr. ALTMAN. Mr. Chairman, if I could just say, personally, we very much appreciate both the opportunity to appear and state our side, as Mr. Clifford said, it is very difficult to do that with all of the media. It is hard for us to get our side across, and in particular, we appreciate the way this hearing was conducted today, the even-handed and fair treatment that we have received.

Senator KERRY. Thank you. At this time, I wish to insert into the record the documents referred to in today's hearing. Thank you very much. We stand adjourned.

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October 20, 1978, Friday, Final Edition

SEE
PAGE 2

SECTION: Business & Finance; D8

LENGTH: 890 words

HEADLINE: Lance Out In Takeover Bid for FG;
FG Takeover Bid Filed, Lance Out As Front Man

BYLINE: By Jerry Knight, Washington Post Staff Writer

BODY:

The Middle Eastern investors who are trying to buy control of Financial General Bankshares of Washington yesterday filed an application to form a bank holding company, revealing, among other facts, that Bert Lance will not be involved in running the bank if the take-over bid succeeds.

The application also promised that "U.S. Citizens of high standing and respect" will hold a majority of the seats on the board of directors of the company. It said former U.S. Sen. Stuart Symington will control almost half of the stock.

The proposed new bank holding company's stock would be owned by investors from Saudi Arabia, Abu Dhabi, Kuwait and Iran. They plan to put up at least \$50 million of their "personal funds" to buy control of Financial General, the application says.

Bank holding company applications are not normally made public, but this one was included in a report filed late yesterday with the Securities and Exchange Commission, which has monitored the Financial General takeover fight closely since it began last winter.

The application to organize an American bank holding company is the latest step taken by the Middle Eastern group which last January bought about 20 percent of the stock of Financial General.

Despite an investigation by the Securities and Exchange Commission and a massive legal battle by Financial General's management, the group has moved steadily ahead with plans to make a public offer to buy all of FG's stock.

Before that offer can be made, however, the Federal Reserve Board must approve the bank holding company application filed yesterday.

The application reveals that Lance - who first advised the Middle Eastern investors to try to take over Financial General - will have nothing to do with running the bank if the takeover succeeds.

Lance, the application states, "would not participate in the management of FGB or become a director of FGB" and he "will not be a shareholder" of the proposed new bank holding company.

Lance's ties to Financial General began when he purchased National Bank of Georgia from FG. After resigning a year ago as President Carter's budget

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director because of his activities as a Georgia banker, Lance began advising wealthy Middle Easterners about potential U.S. investments.

Replacing Lance as the prominent American representing the Middle Eastern group is Symington, the former senator from Missouri and Secretary of the Air Force.

Symington, the bank holding company application discloses, will have voting control of 48 percent of the stock in Credit and Commerce American Holdings, a Netherlands Antilles company that will control Financial General.

Symington will act as trustee for stock owned by Sheikh Kamal Adham, the former chief of intelligence for Saudi Arabia who is "closely related to the royal family of Saudi Arabia" and by Sheikh Mohammed bin Zaid al Nahyan, son of the ruler of Abu Dhabi.

Because Sheikh Mohammed is a minor his share of the Washington banking company will be controlled by Abdullah Darwaish, chief of personal affairs for the ruling family of Abu Dhabi.

U.S. District Court Judge Oliver Gasch ruled yesterday that another member of the ruling family of Abu Dhabi, Sheikh Sultan, could sell stock he owns in Financial General to Adham.

The bank holding company application shows the Abu Dhabi and Saudi Arabian royal family members would each own 24 percent of the Washington banking company. Another 12 percent would be owned by Faisal Saud al Fulaij, former chairman of Kuwait Airways, and an advisor to the royal family of that country.

Identified for the first time in the application is another Middle Eastern owner of the proposed Washington banking company, Mohammed Rahim Motaghi Irvani, founder of an Iranian industrial corporation. Irvani would own 5 percent. Another 5 percent would be in the hands of a Kuwait investment company and smaller blocks would be held by other unspecified investors.

In addition to detailing the proposed owners of the company formed to take over Financial General, the bank holding company application also spells out plans for the company.

Americans will make up a majority of the board of directors, the application says, but the board members have not yet been selected. With control of 48 percent of the stock Symington would probably be among them.

Sharply critical of Financial General's current management, the application says two top executives experienced in bank holding company operations will be hired to run the company.

Financial General, the application contends "has been the subject of significant management problems and has failed to take advantage . . . of opportunities that would enable FGB to realize its full potential growth and performance."

Because of poor management the application says, FG "is of relatively little consequence" in the markets it serves "compared to other bank organizations of comparable size."

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With assets of \$2.2 billion FG owns 13 banks including Union First National Bank of Washington, First American Bank of Virginia and American Bank of Maryland.

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Formerly controlled by International Bank, a Washington investment company, Financial General's biggest stockholders now are its chairman, real estate man B. F. Saul Jr., and a group headed by the bank's president, G. William Middendorf.

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Summary of World Broadcasts

July 1, 1981, Wednesday

SECTION: Part 1 The USSR; A. INTERNATIONAL AFFAIRS; 4. THE MIDDLE EAST

PAGE: SU/6763/A4/3

LENGTH: 480 words

HEADLINE: Sadat's 'Capitulationist Course'

SOURCE: (a) 'Radio Peace and Progress' in Arabic 1630 gmt 28 Jun 81

Excerpts from commentary

BODY:

Sadat's intelligence service co-operates closely with that of Israel in exchanging information about the Palestinian resistance movement. An agreement to this effect exists - an agreement concluded by President Sadat and the Israeli Prime Minister Menahem Begin. They agreed to undertake actions aimed at liquidating the leader PLO and elements which sympathize with it both in the occupied Arab territories and abroad.

Thus we see that President Sadat, who likes on every occasion to brag about the need to settle the Palestinian issue, is in fact playing the role of Zionist informer, assisting them in their efforts to liquidate the PLO and to dampen the will of the Palestinian people to resist and struggle for their just cause. It is difficult to determine what has made Sadat do this. Is it just his desire to render a service to his friends the Zionists, or is it because - and this is more likely - of his inherent inclination towards cunning and treason on which he has built his political life right from the start? [References to Baghdad tribunal in 1978 to try Sadat; his connection with assassinations in the days of Faruq.]

Sadat also likes to portray himself as a friend and ally of Jamal Abd an-Nasir. But information exists to the effect that he was planted among those close to Jamal Abd an-Nasir as an agent of the CIA. The 'Washington Post' says that Kamal Adham - a relative of King Faysal of Saudi Arabia - secured for Sadat financial aid from CIA funds, when Sadat was Vice-President. . .

Recent developments in Egypt today, the detention and persecution of elements opposing Sadat's capitulationist policy affirm the fact that Sadat has linked his political future for ever with the camp of imperialism and Zionism. He has embarked for ever on the path of treason, the path he started on in the time of King Faruq. (b) Tass in Russian for abroad 2240 gmt 29 Jun 81 Text of report of 30th June 'Sovetskaya Rossiya', article 'A capitulationist course':

Sadat's verbiage on 'protecting the rights of the Palestinians' can only be seen as mocking the memory of patriots, 'Sovetskaya Rossiya' says today in connection with the recent TV interview given by the Egyptian President to the head of the Institute of International Studies in Tokyo. As the Kuwait newspaper 'Al-Watan' says, the Egyptian intelligence service 'Mukhabarat' supplied the Israeli secret services with information about the whereabouts of armed

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detachments of the Palestinian resistance movement, Lebanese national-patriotic forces, and prominent leaders of the PLO. Many fighters were killed as a result of this information. 'Sovetskaya Rossiya' also cites other facts confirming the capitulationist and anti-Arab course pursued by Sadat. [Note Section A4 was last published in SU/6761.]

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December 6, 1981, Sunday, Late City Final Edition

SECTION: Section 1; Part 1; Page 1, Column 3; National Desk

LENGTH: 3125 words

*See
pages 3, 4, 5*

HEADLINE: FORMER INTELLIGENCE AIDES PROFITING FROM OLD TIES

BYLINE: By JEFF GERTH, Special to the New York Times

DATELINE: WASHINGTON, Dec. 5

BODY:

Many former American intelligence agents have entered into profitable business arrangements based on the extraordinary secret access to foreign officials and to sensitive information they gained in Government service.

One former agent, for example, now represents an American company in an African country whose president he helped install in a covert operation backed by the Central Intelligence Agency. Another obtained a \$300,000 consulting contract because of his close relationship with the king of an Arab country that stemmed from confidential Government negotiations involving the two.

These and other examples were turned up through a review of records and interviews with dozens of officials and businessmen here and abroad.

Called Hindrance by Some

Some American diplomats say the former agents can be a hindrance to American foreign policy, and businessmen who compete with the former agents say they have an unfair advantage.

The activities of the former agents have been placed in the spotlight by disclosures that Edwin P. Wilson and Frank E. Terpil used their intelligence connections in elaborate and, in some cases, illegal foreign business deals. They have been indicted for illegally shipping explosives to Libya for use in training terrorists. Both men are fugitives living abroad.

Different Kind of Revolving Door

Intelligence officials and Government prosecutors say they know of no other former agents who have committed such offenses. But for the first time, the C.I.A. is addressing questions about conflict of interest and revolving-door employment in the intelligence business, issues usually associated with officials who trade on their experience in the military or Government regulatory agencies.

The revolving door for covert intelligence agents is different from the one used by generals and lawyers, many officials say, because the former agents have had unusual and sometimes clandestine relationships with foreign leaders and access to sensitive intelligence information. Intelligence agents over the years have occasionally paid off foreign officials as a matter of course and have

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violated foreign laws. Some appear or pretend to have continuing connections with American intelligence agencies after they leave the Government.

Among the former agents who have used their foreign contacts and expertise for business purposes after leaving the Government are these:

Lawrence Raymond Devlin, the former C.I.A. station chief in Zaire. He covertly helped support President Mobutu Sese Seko's rise to power and then went to work in Zaire as the representative of an American metals company.

Raymond H. Close, the former C.I.A. station chief in Saudi Arabia. After official retirement in 1977, he went to work there, and his numerous business interests include partnerships with former Saudi officials.

George C. Benson, the key defense intelligence attache in Indonesia for nine years and the American with the closest ties to the Indonesian generals who took power in a 1965 coup. He is the Washington representative for Indonesia's state-owned oil company.

Vernon A. Walters, the former Deputy Director of Central Intelligence, now the Reagan Administration's ambassador at large. He earned \$300,000 for consulting on a potential arms sale to Morocco before joining the Administration.

Former and current State Department officials who said they were troubled by the foreign-policy implications of retired intelligence agents' continuing to do business in foreign countries frequently cited Mr. Devlin as an example.

For much of the 1960's, Mr. Devlin was an official of the Central Intelligence Agency, including service as station chief in the Congo, which later became Zaire. The Senate Intelligence Committee, in 1975, reported an aborted 1960 plot by the C.I.A. to murder the Congo leader, Patrice Lumumba, and Mr. Lumumba was murdered in 1961.

In 1965, with the help of Mr. Devlin and the C.I.A., Mr. Mobutu took office, according to former intelligence officials. The C.I.A.'s support for Mr. Mobutu included secret financial aid.

A former agent, John Stockwell, wrote in his book, "In Search of Enemies," that Mr. Devlin "shuffled new governments like cards, finally settling on Mobutu as President."

'Excellent Contacts' Cited

After leaving the Government in 1974, Mr. Devlin became head of the Zaire office of Leon Tempelman & Son Inc., a New York-based metals and precious minerals company active in diamond and mineral exploration in Zaire. William A. Ullman, a vice president of the diamond company, said the hiring of Mr. Devlin, who had no experience in diamonds or metals, took into account his "excellent contacts" in Zaire.

Government officials provided a fuller picture of Mr. Devlin's contacts. They said that President Mobutu regarded Mr. Devlin, even long after he left the Government, as the representative of the United States. This gave Mr. Devlin better connections in Zaire than the United States ambassador there, the

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officials said.

Stephen B. Cohen, a Deputy Assistant Secretary of State in the Carter Administration who visited Zaire in 1979, said State Department officials there "believed that Devlin functioned as the true representative of the United States Government in President Mobutu's eyes."

Mr. Cohen added that it "was commonly believed by State Department officials in Zaire that Devlin had complete access to classified Government files long after he left the Government."

Mr. Stockwell said in his book that the C.I.A. continued to use Mr. Devlin in 1975, after he left the agency. One Congressional aide said that arrangement still existed.

Impact on American Policy

Former and current State Department officials said Mr. Devlin's extraordinary access caused intelligence officials in Zaire to regard him as more important than embassy personnel.

The officials said that the C.I.A. was less interested than the State Department in reducing corruption in Zaire and that at times the agency bribed Zairians for information. Mr. Devlin's strategic relationship with President Mobutu helped, on occasion, to undercut American foreign policy objectives, the diplomats said.

For several years Mr. Devlin's deputy in the Zaire office of Tempelsman was Col. John Gerassi, the former military attache at the United States Embassy there, according to Mr. Ullman.

Mr. Devlin's relationship, according to an American businessman who works in Zaire, also gives him and his company an unfair advantage over other businesses trying to operate in Zaire.

"I thought it was unfair to have to compete with people who have developed extraordinary contacts as a result of their Government experience," said the businessman, who requested anonymity because of continuing business relationships. His view was repeated by many others who do business in third world countries.

Mr. Ullman said Mr. Devlin was in the United States this week, coinciding with a visit by President Mobutu, but he did not return repeated telephone messages.

Question of Post-Retirement Work

In the case of Mr. Close, the onetime station chief in Saudi Arabia, former Government officials say his actions, while in the C.I.A. and since retirement, are often clouded in mystery.

In the first place, some think Mr. Close may still be working for the C.I.A. in some capacity, although he officially retired in 1977. They add that a further complicating factor is that some Saudis privately share the same perception.

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In addition, Mr. Close, while station chief in the 1970's, delivered secret official messages to top Saudi leaders that, on at least one occasion, were at odds with communications delivered by the United States ambassador to Saudi Arabia, the officials said. Two former officials recalled an incident in the early 1970's when Mr. Close gave approval to top Saudi officials to sell arms to Pakistan at the same time the American ambassador was denying permission.

In one of his first business ventures after leaving the C.I.A., Mr. Close became a partner with Kamal Adham, who in early 1979 left his post as head of the Saudi Arabian intelligence service, according to Americans doing business in Saudi Arabia. Another Saudi business partner of Mr. Close is Issan Kabbani, another former Saudi official.

Since 1978, a company in which Mr. Close and Mr. Kabbani are principals has been the Saudi Arabian representative for Cesco Chemicals International Inc., a Louisiana-based company that sells an oilfield drilling lubricant, according to Cesco officials.

Raymond G. Matlock, who spends considerable time in Saudi Arabia as owner of Cesco International, an affiliate of Cesco Chemicals, said Mr. Close had been hired because he enabled Cesco officials "to get in the front door" with Saudi officials. Mr. Matlock said that because Mr. Close had "gained the respect" of many top Saudi officials "he can do things with them" beyond the role of a normal representative.

Compensation Not Divulged

Cesco officials declined to divulge Mr. Close's compensation, but other Americans who do business in Saudi Arabia thought his fees were quite lucrative. They cited, for example, Mr. Close's quotation to an American company seeking to land a contract to manage an airport in Saudi Arabia: \$200,000 a year for 10 years to represent the company, plus an additional \$400,000 a year for the life of the contract should the company get the concession.

Several telephone calls were made to Mr. Close's listed number in Saudi Arabia, but no one answered the phone. State Department officials cited two other examples, in addition to that of Mr. Close, in which the current business activities of former C.I.A. station chiefs have raised concern in diplomatic circles.

One case involves Daniel C. Arnold, the former chief in Thailand. After leaving the agency in 1979, officials said, he went to work representing companies seeking to do business in Thailand. American officials involved in Thai affairs said they were concerned about Mr. Arnold's continued dealings with top-level Thai officials. Mr. Arnold apparently lives in the Washington area, but he does not have a listed telephone and could not be located.

A Filipino Connection

Another example involves Herbert W. Natzke, who retired in 1979 after serving as station chief in the Philippines. He went to work for Lucio Tan, a wealthy Philippine businessman involved in banking and trade, according to Government officials.

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State Department officials said Mr. Natzke's affiliation with Mr. Tan was perceived by the Filipinos as giving the Tan interests an indelible association with the United States. One result, they said, is that President Ferdinand E. Marcos thinks the C.I.A. wants to protect the Tan interests.

Mr. Natzke recently moved from the Philippines to California to represent Tan interests. Repeated calls were made to a telephone listed in his name, but no one answered.

Mr. Benson and Mr. Walters, two officials who dealt in secrecy in their intelligence careers, have found details about their business activities placed in the public record since they retired from the agency.

Mr. Benson said in an interview that he was hired in 1973, after leaving the Army, to head the Washington office of Pertamina, Indonesia's state-owned oil company. He approached General Ibnu Sutowo, then head of Pertamina, who, upon hiring Mr. Benson, told him, "We need an office in Washington, we need someone we know well, we need someone who knows Washington," Mr. Benson said.

In his more than nine years as a military attache in Indonesia, Mr. Benson became very close to the top Indonesian generals who, with covert American support, took power in 1965. He also served as the Pentagon's expert on Indonesian affairs. When asked if he got his private job as a result of his Government contacts, Mr. Benson said, "Absolutely, that's the only reason they hired me." He described his Indonesian dealings as proper.

Registered as an Agent

Mr. Benson said he registered as a foreign agent "four or five years ago" to be safe, since "it's sort of a gray area." Records on file with the Justice Department show that he registered as a foreign agent for Pertamina and an affiliate in December, 1980, and that an amended statement to "correct a deficiency" in the initial one was filed last July. Among the filings are a 1977 consulting contract with the Pertamina affiliate, and a 1980 letter showing Mr. Benson's pay of \$15,000 a month.

In September, 1980, two months before Mr. Benson registered as a foreign agent, an affidavit was filed in the United States Court of Appeals for the District of Columbia noting some of Mr. Benson's lobbying activities during the middle 1970's for Pertamina. The court case involved importation of liquefied natural gas from Indonesia, a matter in which Mr. Benson says he was actively involved.

Mr. Walters's private attempts to sell arms to Morocco came to light earlier this year, when he filed a disclosure statement in conjunction with his nomination for his State Department post.

John R. McLane, the president of Environmental Energy Systems Inc., the company that paid Mr. Walters \$300,000 for unsuccessful efforts to sell tanks to Morocco, said in an interview that the company hired Mr. Walters because of his access to important figures in Morocco.

"We went to him because he had the connections, he knew the King of Morocco," Mr. McLane said.

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Trip to Spain for C.I.A.

One of Mr. Walters's last missions in the C.I.A. was a trip in late 1975 to Spain, where in meetings with King Hassan II of Morocco and Spanish officials he convinced Spain to give up control of Western Sahara, a Spanish colony in Africa long sought by Morocco, according to Congressional sources.

When asked in 1979 by Africa News, an American newsletter on African affairs, about the secret 1975 talks, Mr. Walters reportedly declined to discuss the details, saying, "It would look like the King of Morocco and the King of Spain are pawns of the United States, and that wouldn't be in anybody's interest."

The State Department said Mr. Walters was out of the country. He did not respond to telephone messages left with his office here. Richard Helms, the former director of the C.I.A., said in an interview that the issue of revolving-door activities on the part of retired agents had not been a problem during his tenure. He added that it was "against the American tradition" to place prohibitions on the private business practices of former intelligence officers.

Contrast With Foreign Mores

Mr. Helms also contrasted what he called America's "ethic" about conflicts of interest with foreign mores, which he said hold "the more conflict the better."

Mr. Helms now earns a living advising corporations about doing business overseas. The name of the company is Safeer, the Persian word for ambassador.

Other intelligence officials say that it is unfair to single out the intelligence community since other former Government employees, such as former ambassadors, also profit in private life from their Government experiences.

The opportunities for public discussion of conflicts involving former intelligence agents are few. Since the identities of C.I.A. agents, even after they retire, are not made public, it is often difficult to follow their entry into private life. Other former officials are subject to public scrutiny because their identities are not kept secret.

Congress is considering a bill that would inhibit still further public discussion of intelligence agents.

Various Statutes Apply

The revolving-door question, often an issue in discussions of the military-industrial complex, is governed by various Federal statutes, including criminal laws enacted in 1962 and more stringent laws passed in 1978 under the Ethics in Government Act. The C.I.A. guidelines on conflict of interest are identical to those in the 1978 act, C.I.A. officials said.

The conflict of interest laws, in general, prohibit or limit former Government employees from representing anyone trying to influence their former department or agency.

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J. Jackson Walter, director of the Office of Government Ethics, said a lawyer in the C.I.A. office of general counsel had told him that the agency had "never found a violation" of the ethics laws. But Mr. Walter said the agency lawyer told him the agency gives "daily advice" to former agents on revolving-door regulations.

Although the agency has undertaken a detailed review of its internal guidelines in the wake of disclosures about Mr. Wilson and Mr. Terpil, intelligence officials said it was unlikely that changes in the C.I.A. employment contract would result from that review.

A Glimpse at Iranian Dealings

The officials said, however, that the agency's review had led to consideration of adopting a code of ethics. Brief attention was drawn to the issue in 1975 when a subcommittee of the Senate Foreign Relations Committee disclosed the role of some former agents as brokers and middlemen in foreign military aircraft sales.

Committee documents showed how Kermit Roosevelt, a former C.I.A. official who personally arranged the 1953 coup that brought the Shah of Iran to power, used his C.I.A. connections on behalf of the Northrop Corporation in Iran and the Middle East.

Letters written by Mr. Roosevelt and released by the committee repeated references to "my friends in the C.I.A." who were keeping him apprised of Northrop's competition.

But the Senate Committee failed to make public all its files relating to the activities of former agents, according to former Senate aides, and no public action was taken to address the issue.

The House Select Committee on Intelligence, currently studying the Wilson-Terpil affair, has not yet looked into the general issue of conflicts of interest by former agents, according to a staff aide.

GRAPHIC: Illustrations: photo of Vernon Walters (page 42) photo of C.I.A. emblem (page 42) photo of Richard Helms (page 42) photo of C.I.A. headquarters in Langley Va. (page 42)

SUBJECT: INTELLIGENCE SERVICES; UNITED STATE INTERNATIONAL RELATIONS; FINANCES, PERSONAL; DISCLOSURE OF INFORMATION

The Washington Post

Washington Business

THE WEEK OF MONDAY, OCTOBER 8, 1984



Robert A. Altman: lawyer, president of First American Bank, co-owner of USA Today's buildings and husband of actress Lynda Carter.

Robert Altman Joins Ranks of 'Super Lawyers'

By Mark Potts
Washington Post Staff Writer

One wonders where Robert A. Altman finds the time.

Some days he spends as a Washington superlawyer, representing clients such as IBM, General Foods and the drug industry before regulators and on Capitol Hill.

On other days he becomes president of First American Corp., the holding company for the second-largest group of banks in the Washington area, whose takeover he engineered for Middle Eastern investors a few years ago.

Still other days, Altman oversees his real estate investments, including the USA Today tower in Rosslyn and the new office building in Arlington.

And on weekends, he jets to California to spend time with his wife, television actress Lynda Carter.

Altman may not be as well known as Carter, TV's "Wonder Woman," or even as familiar as Clark Clifford and Paul Warnke, senior partners of the Connecticut Avenue law firm in which he is a partner.

But at 37, the diminutive Altman has become a big man in this town, where law, real estate and banking are among the most powerful of the power industries, and success in any one of them is enough to confer superstar clout.

How does he find the time? "Long hours," he says with a thin smile. "Very long hours."

Altman is that seemingly rare beast, a

See ALTMAN, page 32

Vital Signs Robust For Area Business

By Jerry Knight

Taking the pulse of the metropolitan Washington economy is usually as tricky as arm-wrestling with an octopus.

It's hard to get a grip on a multi-appetized, amorphous organism of more than a million people for long enough to measure its unemployment rate, sample

COMMENTARY

its family income, chart the growth of its gross local product and check the other vital signs of its economic health.

Even when you consult with the doctors of economics, the data they provide offer only in abstract measurement of local prosperity.

It is all so abstract as to be a diagnosis of

MONDAY MORNING

Washington's economic health just by looking at the city around you.

The symptoms of a robust economy are everywhere.

Drive somewhere you haven't been for a while—out to Reston, up to Gaithersburg, down towards Waldorf. Count the construction cranes, the "Help Wanted" signs, the ice cream parlors or the pages in today's newspaper.

A windshield census or an eyeball balance sheet can tell you nearly as much as a chart of leading economic indicators or a quarterly financial statement about the health of Washington Business.

Just as political reporters have the ubiquitous cab drivers who provide instant insight

See MORNING, page 20

DeLorean Broker's Deals Probed

By Mark Hasenball

Special to The Washington Post

A federal grand jury and the federal judge presiding over two civil lawsuits are looking into the tangled affairs of a financier from the Virginia hunt country who once offered to help bankroll the failing DeLorean Motor Co.

Until two of her firms filed for reorganization in bankruptcy, Jeanne Anne Farman, 44, ran a group of companies out of an office in the Westgate Research Park at Tysons Corner. She lived on a \$600,000 farm in Prince William County, owned a stable of thoroughbreds and ran businesses that specialized in helping other companies obtain multimillion-dollar loans.

But legal proceedings involving Farman and her companies show that several of the loans she allegedly offered to arrange never were completed. Developers of a Foggy Bottom

apartment complex have won a \$2.5 million lawsuit against Farman and her companies for failing to provide a promised loan. A \$10 million deal with DeLorean fell through on the same day he was arrested on cocaine conspiracy charges.

Now the developers who won the lawsuit contend money that could be paid to them has been transferred to a Cayman Islands bank account. Farman's creditors are trying to trace her other assets. FBI agents have been investigating Farman's business affairs in five states in connection with a Washington grand jury investigation. And the British government, in attempting to untangle DeLorean's affairs, is looking into her abortive deal with DeLorean.

Farman has appealed the decision in the

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Altman has been called an "indefatigable," imaginative opponent in the courtroom.



Fionnula Carter, television's "Wonder Woman," married Altman last January.

Meet Wonder Woman's Man Superlawyer Robert Altman

ALTMAN, from page 1

Washington native. His father, trained as an attorney, has considerable real estate investments in the area, and his mother owns a local television production company.

Since he joined Clifford & Warnke out of George Washington University law school in 1971, Altman has developed a knack for winding up on the right case at the right time. He successfully defended embattled Bert Lance in 1977 against charges of financial impropriety; he overcame huge odds to win *First American*—then known as Financial General Bankshares—in one of the most celebrated takeover battles ever; and under his stewardship, *First American* has become one of the nation's most aggressive and fastest-growing banking organizations.

"I think I have been most fortunate in the opportunities that have been presented to me," he says.

As a lawyer, Altman usually is hired to "work" Washington on behalf of corporate or international clients, an activity in which Clifford & Warnke, one of Washington's smaller (20 lawyers) big-name firms, specializes.

He won't name his clients, other than to say that many are prominent members of the Fortune 500, but he has appeared on behalf of IBM, Eastman Kodak, Phillips Petroleum and General Foods, among others. His services for them range from litigation to lobbying, although, he says of the latter, "not nearly as much as people generally perceive."

The kind of law Altman and his firm practice often goes on behind the scenes, and can rely on personal connections and contacts—the kind of clout senior partners like Clark Clifford, a former secretary of Defense, and Paul Warnke, a former arms-control negotiator and Pentagon chief counsel, can provide. Yet Altman ranks at the suggestion that he is some sort of Washington "fixer" for his corporate clients.

"I personally don't know of any matter that was 'fixed,'" he says. Rather, he says, his knowledge of how Washington works—and who works it—lets him give his clients "a judgment as to what you need in order to be successful. You know who you have to talk to," he says.

To represent a wide variety of clients with an equally broad set of interests requires that Altman and his colleagues maintain contacts and expertise in a large number of areas.

"We happen to believe that there is a real advantage to having a breadth of experience," Altman says. "There is a real value in having a perspective, so that as you look at a problem you can see that you're going to have a public relations problem here, you're going to have likely litigation—or at least litigation is one avenue of relief for you—here, we can move up to the Hill and attempt to do something there."

Such a practice can win a lawyer plenty of behind-the-scenes praise, but not much notoriety. Altman doesn't really seek publicity, but he got it when he took on Bert Lance as a client. Representing Lance catapulted Altman, then just 30, into the big time of Washington lawyers—the kind whose calls to the government always get returned.

Lance, director of the Office of Management and Budget in the Carter administration, came under fire in the summer of 1977 for alleged financial improprieties while pres-

ident of the National Bank of Georgia. He was summoned before a Senate committee for questioning in mid-September, and Clifford & Warnke to represent him. Altman died the bulk of the case.

"We knew that it was not going to be an easy case," Altman says. "The charges continued to accumulate, so that even while you were working on what you thought were the main issues for the hearing the evening... The [Washington] Star carried a story of something new which came up, and then you'd read in *The Post* next day a lengthy account of new issues which had been brought the previous day that one day you'd have a charge of tax evasion, tax fraud—one day we had a charge of embezzlement—and all this was in addition to the basic subjects, what we had thought were the subjects of the hearing."

The list of charges was pretty long by the time Lance testified. But Altman contends that he calls a "fairly aggressive" test before the Senate committee and prosecution seemed to rally in Lance's favor. Lance was forced to resign, and he later was indicted on 33 assorted counts of financial impropriety. Again, Altman defended him, and Lance went free. 21 of the charges were dismissed, nine ended in acquittal, and the wound up with hung juries. Investigations by Lance by several government agencies failed to find anything conclusive against Lance. "That was a long, long haul for him, a long haul for us," Altman says.

The Lance case established Altman as a force to reckon with in the Washington community. But his next "long haul" would give him equal stature in Washington's business arena—albeit quite by circumstance.

Once again, Lance was involved, but he had no bearing on Altman's participation. Lance had recommended to a friend who was a financial adviser to three Middle Eastern businessmen that they invest in Washington-based Financial General Bankshares, which owns banks in the District, Maryland, Virginia, Tennessee and New York. The investors, from Abu Dhabi, Saudi Arabia and Kuwait, quietly bought some stock in the company in early 1978—and all but the last.

Financial General's management, already troubled by internal dissension, charged a suit in federal district court that the investors were acting in concert without filing the required documents with the Securities and Exchange Commission.

The Middle Eastern investors hired a man to defend them, a job that arose from Altman's international practice rather than his relationship with Lance, he says. "I had to check with Lance to make sure there was no conflict of interest in accepting the case."

He also had to check another possible conflict with his Arab clients, his religion. Altman is Jewish, a fact that made no difference to the investor group. "It's perfectly satisfactory and it's well known to them," he says. "The matter of fact, I think they're a little amused by it."

Faced with the suit, the three investors decided to seek a complete takeover of Financial General. "From a business standpoint, the investors concluded that their interests were only some

DC 000304

OCTOBER 8, 1984

Altman had never even been in the city when that deal was made. But he says Altman says "I managed to get a lot of things done in a short time."

Altman says he was "in charge of the management of the company" and that he was "in charge of the management of the company."

The three investors wanted a vote on whether the company should be sold. Altman says the company's management decided to throw in the towel, and the Middle Eastern investors bought Financial General in 1982 for a lot more than \$200 million, renaming it First American.

The Financial General case involved another controversial angle: the question of Arab ownership of a bank in the nation's capital. Here the Washington connections of Altman and Clifford came into play.

Altman says the firm believed with some of the most senior government officials to find out whether this would be consistent with U.S. policy or whether it would be contrary to the economic interests of the United States—something we would be sensitive to on any kind of foreign representation." This was a particularly sensitive subject in 1976 with oil supplies from the Middle East tightening again and anti-Arab sentiment running high.

But Altman's and Clifford's contacts gave them a green light. "We were not only advised that it would not be inconsistent with U.S. interests, but we were encouraged to take this on as being quite valuable to the United States were we able to do it," he says.

The reasoning, the lawyers were told, was that the United States is shipping tens of billions of dollars to the Middle East each year for crude oil, and getting little of it back. "So there was a strong desire to come up with a vehicle, a way upon an acceptable basis to the United States to have those funds return to the United States," Altman says. "This is the concept—to create a model for Arab investment in the United States, one that is acceptable to Americans and also an attractive business opportunity."

To date the model seems to be performing as planned. "Our clients have been very satisfied with this arrangement," Altman says.

Under the arrangement, the Middle Easterners are passive investors, leaving the entire management of the operation to Americans. Which is how Robert Altman, Washington lawyer, became a part-time banker.

"Our investors came to us and said that they had acquired this property for them, they wanted us to oversee it," he says. "We suggested that what they really needed was professional banking management. We were bankers. We were not trained as bankers."

But the new owners prevailed, and Altman became president—with Clifford as chairman—of First American. While experienced bank executives run the day-to-day operations of the company, Altman says he has become increasingly involved with having strategy for First American's growth in the rapidly changing banking environment.

"There was an old line—all you had to know about banking was 6-4-3. You loan at 6

percent, you pay 4 percent on deposits and you're in the gold trade at 1," Altman says.

Now, Altman says, he and Clifford as lawyers have an advantage in running the bank. "We're not tied to the old ways of doing things, and when we saw a problem, we could go in and change it."

The bank's first year was not a success. The company had never before had a bank in the United States. It had to start from scratch. Altman says the bank's first year was not a success. The company had never before had a bank in the United States. It had to start from scratch.

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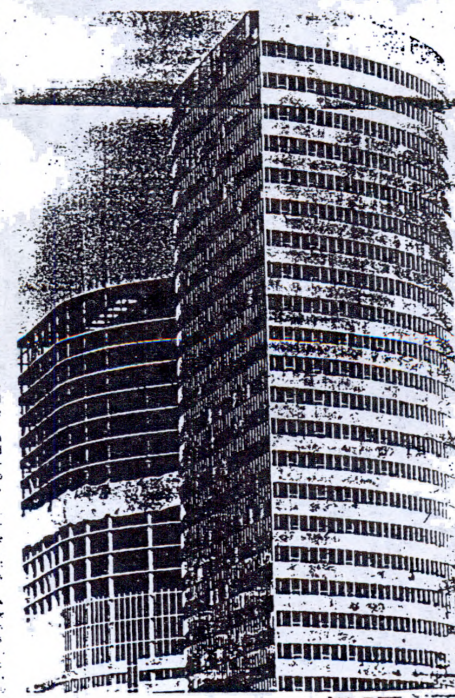
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Altman won big legal battles for Bert Lance and investors who took over First American.



USA Today tower and a town being built in Ramsey.

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Wednesday May 17 1978

The man who of mysticism

BY NICHOLAS

WESTERN BANKS invested or deposited through concentrate on the western banking system, stress the invisible. This is mobilise 1 or 2 per cent. of one of the reasons, says Mr. that money it has a substantial business? The style of BCCI's operation, the smart branches and the personal service, has been developed with the wealthy Asian in view. Mr. Yves Lamarche, the director of Bank of America's Middle Eastern operations and the man at the focus of the problematic relationship between the two banks, is open in his praise of the way BCCI has seized upon this business opportunity.

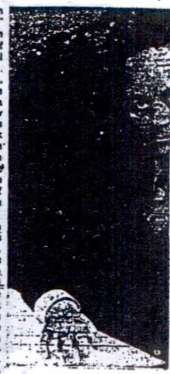
In the centre of London BCCI does a lucrative business with Middle-Eastern visitors. It makes special efforts through its "Middle Eastern total resources by the end of mobilisation unit" to find last year of \$2.2bn and 146 hotel rooms and to arrange office across the world. In transport, Mr. Abedi says that the Press the bank has recently been noted for a liaison with Mr. Bert Lance, President Carter's former budget director, and an impending schism with Bank of America, a major shareholder, but chiefly for the mystery that surrounds it.

Mr. Abedi has "removed" some of the mystery in an interview. He has explained BCCI's complex ownership, and the U.S. bank's decision to pull out. He has described BCCI's U.S. attempt to enter the traditional syndicated and its links with Mr. Lance. He has said that he will slow the pace of BCCI's expansion in Britain. He has betokened for large companies, a bank, applying what Mr. Abedi says are the "most conservative banking principles" achieve such growth of its business and in its profit.

BCCI Holdings (Luxembourg) was set up in 1972 with a capital of \$2.5m. Bank of America, with which Mr. Abedi had long links in his years with United Bank of Pakistan, took a 25 per cent. stake. Arab shareholders subscribed for the remainder, although Mr. Abedi retained the right to acquire part of their holdings. From the start, he says, he made it clear to Bank of America that BCCI would become a "global operation" and "would develop its own style of management." He says that B of A noted these expressions but previously did not believe them.

The oil price explosion gave impetus to BCCI's expansion. "At first it was concentrated on the Gulf, where with 51 branches in the UAE and Oman, BCCI is now one of the major commercial banks. But Mr. Abedi also followed the flow of oil wealth to Europe and above all to London. Since 1973 BCCI has established 45 additional branches in the U.K. and now effectively has its head office in the City.

I estimate that there are about \$100m of liquid money



paid off from distributed profit. ICIC is in turn, owned by three trusts in approximately equal proportions. The first is, in effect, a profit sharing scheme. The second is a charitable trust. The third is for the "promotion of the business". ICIC is run from Leadenhall Street by Mr. Pashinian's nationalised banking system.

The other 51 per cent. of BCCI is currently held by Bank of America. It is clear that Bank Corporation, a Cayman sub-

BANK OF CREDIT AND COMMERCE INTERNATIONAL

Branches and office	Share in \$1,740m deposits	Share in \$18m non-bank advances	Share in operating profit
Middle East	81	46	46
Europe including UK	51	22	16
Africa	18	15	15
Far East and Cayman	10	17	20

share in Kuwait International last three years. After the oil price rise the U.S. bank was unwilling to have only an indirect presence in the Gulf. When it started in the Middle East, it was with Bank of America business, with Bank of America I could not arrange my own contacts in the area. I had to go through BCCI. That had to change," Mr. Lamarche explains.

Beyond this developing contact of interests, the Bank of America executive also makes it plain that his bank was worried by the pace of BCCI's expansion. Two years ago B of A, which then had a minority presence on the BCCI Board, established a joint venture beyond which B of A was not to go. A second joint venture

Financial Times Wednesday May 17-1978

adds a touch to banking

COLCHESTER



Mr. Agha Hasan Abedi, president of BCCI, 56, was born in India and educated in law and English literature at Lucknow University. He joined the Habib Bank in India in 1946 and worked there until leaving to lead the setting up of the United Bank of Pakistan in 1959. He left UBP in 1973 because of the impending nationalisation of the Pakistan banks. BCCI was set up at the end of 1972. Mr. Abedi says that he has no stake in BCCI and that he is not a wealthy man. His home is in Pakistan but he is constantly on the move supervising the rapid international growth of his bank. His office, in so far as he has one, is in London and when here he lives "in a small rented house in Dulwich."

Terry Fox

and business are there." The table shows that the profitability of the bank in Europe—chiefly the UK—is low in proportion to the number of branches and the share of deposits.

Mr. Abedi is aiming for a 54th bank with a 7 per cent ratio of capital to total liabilities by 1980. He is adamant that he has the management talent to cope with this continued growth. He says BCCI has 50 senior executives with more than 25 years of banking experience, including two ex-central bank governors and the ex-chairman of the Pakistan banking council.

These executives are managed in a way that looks very strange to anybody used to the management structures of the West. The management system is known inside BCCI as The Concept, and the Concept is almost an article of faith. It states that the chief executive is a committee with no geographical location. He is the "joint personality" of representatives of various parts of the bank who obtain "unity of thought" through constant communication. Mr. Abedi is theoretically part of a "joint personality" in this mystical sounding system. Yet he is visibly the architect and chief, all knowing over it all.

His desk is in the pole position at the end of a large and immaculately appointed open plan office in Leadenhall Street. This is not the head office because BCCI is decentralised to the point of having no centre, but in effect it is from this floor and from the Abu Dhabi office that the operation is run. On this floor work the experienced Pakistani bankers that are the backbone of BCCI's management. They are almost without exception given the title of a settlement under which they would make a tender offer of \$15 a share for all Financial General's stock.

The effect of all this, Mr. Abedi explains, is to bring forward U.S. plans that were originally only a long-term aim. He is "not yet sure who will make the offer, but whoever makes it, and if it succeeds, sustain. In the minutes of a BCCI will probably manage recent executive meeting of Financial General. He says that BCCI there is a section which an important aim of BCCI is to broaden its operating base in the U.S. This will be felt, says Mr. Abedi, with the Concepts of greatly increase BCCI's ability to deploy Arab wealth, but will discipline. The present state of the bank's dependence on a part of the world somewhat of hoc and flexible in which he regards as politically disciplines, has to be reviewed to determine to what extent it has been conducive to fuller utilisation of human energy.

While America—and a rapid expansion in Africa—take up more of Mr. Abedi's time, the expansion in the U.K. is to be for his bank and for the "mission" which can be achieved through the treaty that won the down the sea and admits that the Bank of England has it. But Mr. Yusef Lamarche of dropped into this effect in at the time that recipient arms. This is not to be a order that we have that the world is a better place.

within these constraints by 28% of men 49 per cent of the growing less fast. Mr. Abedi wanted to raise more capital to allow his expansion to go ahead. For two years B of A imposed a moratorium on the raising of new funds. Finally at the end of last year it gave the go ahead.

B of A did not subscribe for the new shares and thereby lowered its stake from 30 per cent to 20 per cent. BCCI made up the shortfall with an issue of subordinated long term capital notes which were placed with Middle Eastern investors. At the same time B of A reduced its representation on the Board of BCCI to a minority of one. It is 28% that ICI, the Cayman company, should buy the rest of its holding. Mr. Abedi says that the sale will go through slowly over the next few years and most of the shares will probably go via ICI to the Middle Eastern shareholders. He says that the price for this stake is to be \$27m—no had return for B of A on an investment over six years of about \$5m.

As B of A began to disengage itself, Mr. Abedi was able to focus more intensively on his next target—the U.S. He was introduced to Mr. Lance, a former adviser to the U.S. as an adviser. Mr. Abedi says that Mr. Lance's function is to help with the flow of third world money to the U.S. and vice versa.

Mr. Abedi's investment recommendations to Mr. Lance was to buy the Bank of America. Mr. Abedi says that the Bank of America is a good company and that it is a good investment. He says that the Bank of America is a good company and that it is a good investment.

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the mysteries behind Abedi's bank

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See page 4

By NIGEL BANCE

Iqbaluddin Ahmed was sitting down at the lunchtable at the AIBD meeting in Zurich when the question hit him like a blow in the face: "Are you from that cowboy bank in the Middle East?" asked someone at the same table. That's typical of the remarks coming out of the Bank of Credit and Commerce International, the institution that is the talking point at bankers' cocktail parties, the source of gossip at conferences, and the object of speculation in the first-class cabins of planes ferrying bankers out to the Gulf. Ahmed, the chief executive of BCCI's merchant bank, should be used to such questions, for by now BCCI is well aware of its reputation.

That reputation is based largely on speculation: on speculation about its unusual management style; on speculation about its elusive founder and president, Pakistan-born Agha Hasan Abedi; on speculation about its Middle East shareholders; on speculation about its links with Saudi Arabian businessman Dr Ghali Pharoan, son of an adviser to the late King Faisal; on speculation about its connections with Bert Lance; on speculation that Bank of America wished to divest its shareholding in the bank; and, above all, on speculation concerning its amazing growth.

Euromoney, as passed on some of that speculation. In our Gulf Banking survey last August we first published a report that Bank of America was considering a withdrawal from BCCI by selling its 24% shareholding. Subsequently, a representative from BCCI, D8dar Rirvi, visited *Euromoney's* London headquarters to complain about what he termed the inaccuracy of the report. Rirvi claimed that Bank of America planned to retain its shareholding in the bank, and that it was very happy to do so. Bank of America confirmed

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that statement. Some months later, however, Bank of America issued a press notice, following a number of stories in the financial press, which said that it intended to divest itself of its interest in BCCI by 1980. Abedi said he had no financial involvement in any BCCI company.

What follows is an investigation into BCCI and into the truth behind the rumours as far as this can be ascertained. While researching the story we talked to many BCCI employees, including an interview that lasted several hours with Agha Hasan Abedi.

If Bank of Credit and Commerce International is an unusual bank, its founder and president is even more unusual. "Purity and chastity is the key to our management at BCCI," said Abedi during a rare interview with us at the Inn on the Park hotel in London.

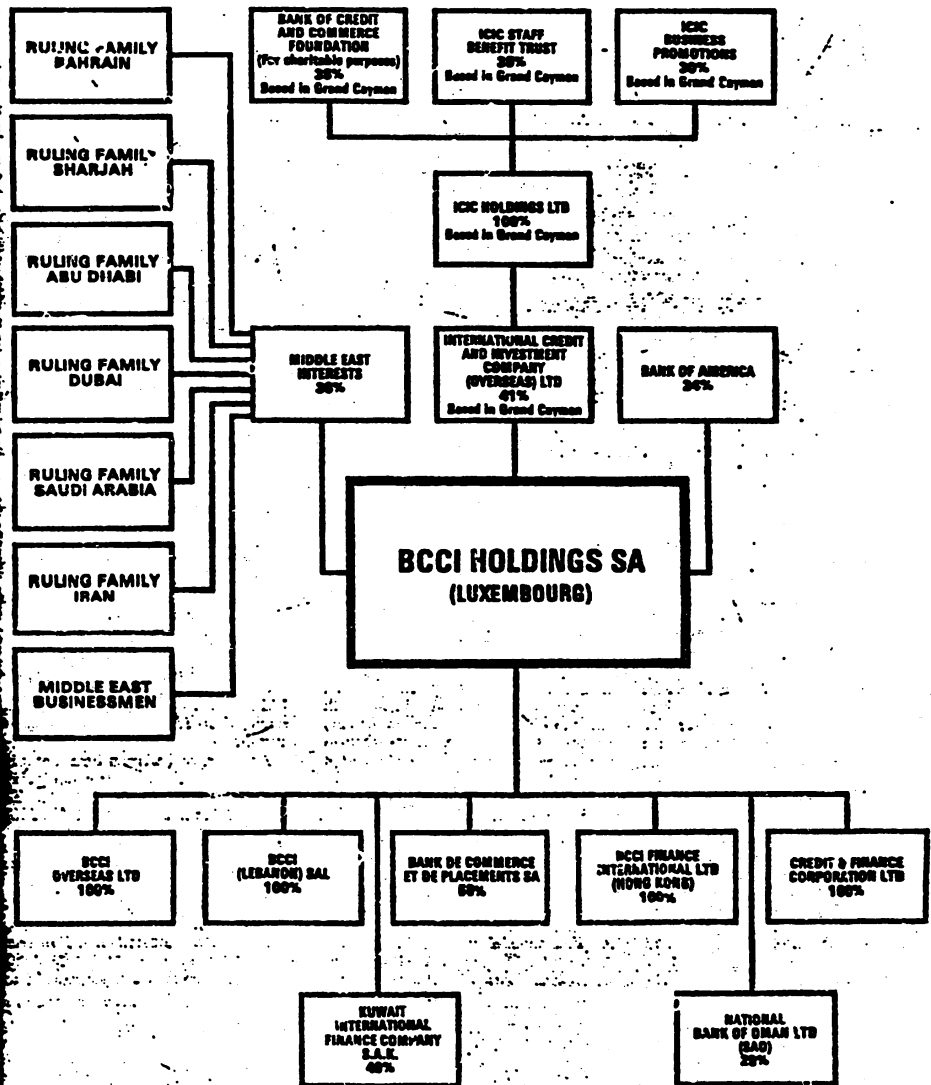
In the course of that interview Abedi described BCCI's origins, his unique concept of management, its shareholders, the maze of holding companies and cross-shareholdings that control it, and his relationship with Bert Lance. The bank, claimed Abedi, had loaned Lance a total of \$3.6 million while the former US Budget Director liquidated his shareholdings in several US banks. "We were told that Lance wanted to sell his 60% stake in the National Bank of Georgia." As a result, Abedi claimed, he introduced Pharoan, a close friend, to Lance who subsequently sold his 120,460 National Bank of Georgia shares to Pharoan for \$2.4 million, or \$20 a share. Lance now works on a retainer for ICIC Business and Promotions, a Grand Cayman-based company that is part of the BCCI network (see chart of shareholders).

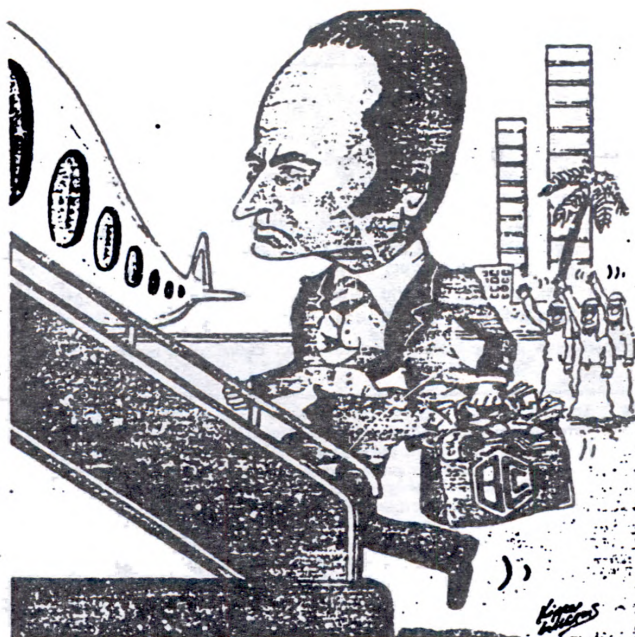
Abedi, 57, the son of a Lucknow landlord, played his master stroke when he foresaw the nationalization of banks in his native Pakistan and used his connections with some of the major ruling families of the Middle East to set up BCCI in 1972. The young Abedi graduated from Lucknow university with a degree in English literature and law, spent 12 years at Habib Bank before forming United Bank of Pakistan. He was president of United Bank for 13 years, and it was then that he made the Middle East connections that are so valuable to him today. He is, he claims, a close friend of Sheikh Zaid, president of the United Arab Emirates. Sheikh Zaid is said to have substantial financial interests in Pakistan. Abedi, in turn, acts as host to the sheikh when he visits Pakistan, accompanying him on shooting and hunting, and — a great love of the sheikh's —hawking expeditions.

BCCI's founder is a lover of Indian classical music and an avid reader of management books who shuns alcohol and publicity. While working in Karachi, for example, he was not a member of the city's smart watering spot that was frequented by ex-resident Bhutto and his entourage, the Sind Club, while most senior BCCI employees are members. But his Pakistani friends and employees have assumed an enormous importance in his business life: many of BCCI's senior managers are former United Bank employees, and Abedi continues to poach senior bankers from his native country. BCCI's staff includes, for example, a former governor of the Central Bank of Pakistan and a former governor of the central bank of Bangladesh. More recently, he hired Pakistan's World Bank representative, Iqbaluddin Ahmed, to run his merchant banking arm. With him, Ahmed brought another World Bank executive, Dr Peter Muth.

The bank, claimed Abedi, had loaned Lance a total of \$3.6 million while the former US Budget Director liquidated his shareholdings in several US banks

UNRAVELLING BCCI'S SHAREHOLDERS





Agia Hasan Abedi, BCCI president and founder.

His eagerness to hire experienced Pakistani bankers is one aspect of Abedi's management style. The way he runs the bank is even more unique. His headquarters are in Leadenhall Street in the City of London and there, when he's in town, Abedi sits in an open-plan office, a concept that is consciously or unconsciously based on that of Bank of America's founder president, Amadeo Peter Giannini who sat where he could see and be seen. His boardroom houses a custom-built circular table at which Abedi, deliberately, has no set place. The office is a profusion of flowers, and the decor reeks of the same smoked-glass opulence that characterizes the bank's branches that have been sprouting like spring flowers in the posher areas of London. No expense is spared: over the British Whitsun holiday the air-conditioning was switched off during a heat wave. The flowers died but were immediately replaced.

BCCI employees do not have titles, apart from on the merchant banking side. Instead they have responsibilities. They are referred to as "executives". The general manager of the UK operations, Swaleh Naqvi, for example, describes himself as "executive in charge". This is the unorthodox style that does not create trust among BCCI's fellow bankers in London.

That unorthodox style, and the speed at which BCCI has expanded, is one of the great talking points in banking today.

It all began, said Abedi, during the interview, with his travels around the Middle East, his meetings with the ruling families and the problems in Pakistan combined to form the concept of a Pakistani-run bank with Middle East capital. The concept crystallized into a "bank in Luxembourg with the majority of the capital coming from our friends in the Middle East", but to add credibility and expertise, the bank needed a connection with a major international banking organization. Discussions began with American Express but came to nothing because, Abedi said, American Express wanted a quarter of the equity and a major say in the bank's management. "That was no good" said Abedi flatly.

"BCCI was conceived with two major factors in mind: we wanted a market place and a management capability. We knew that the market place initially was in the Middle East, and we knew that enough management capability would be available from United Bank after nationalization."

According to American Express all discussions with BCCI were done

through an intermediary who was a Middle East businessman. American Express have told us that to its knowledge no offer was made to BCCI.

So Bank of America was approached. That, in turn, was seeking a presence in the Middle East through local participation and, unlike American Express, it was prepared to inject capital without wanting to run the bank. "Bank of America agreed to become a shareholder, but we made it a condition that we would establish the management style" was how Abedi put it. A promotory agreement was signed during what Abedi described as a "historic lunch" in San Francisco in June 1972. The concept had become a reality, but it was a reality that Bank of America was apparently to regret later. Almost six years later B of A was to state that it had been satisfied with its shareholding in the bank, but that it had now established a presence of its own in the Middle East. Abedi, naturally enough, claimed that the relationship benefited both parties. "People will think that Bank of America's withdrawal shows that the relationship wasn't a good one," he said, "but we had a good relationship and both partners have benefited financially". Bank of America, he said, had done very well out of BCCI. "And if anything, the damaging publicity we got when Bank of America announced its intention was a test for BCCI. It hasn't done us any harm at all." Bank of America, however, were unable to comment.

But back in the days when the relationship was just beginning to blossom, the future looked less problematical in many ways. BCCI then stood on the threshold of the growth that is best exemplified in Table 1. That shows just how fast the expansion was: from 19 branches in 1973 to 146 branches by the end of last year, from assets of \$200 million in 1972 to assets of \$2.2 billion in 1977, and from pretax earnings of \$335,000 to \$25.9 million over the same short, hectic period.

Abedi concentrated on Britain and the Middle East, singling these out as the main potential growth markets. The growth of branch banking in Britain, in particular, was spectacular. An example: at the end of 1973 Britain hosted four of BCCI's characteristic smoked-glass branches with the now familiar BCCI logo prominently displayed. At the end of last year the number had risen to 45, some of them situated in the smartest areas of London where bureau de change operations kicked in a major contribution

"People will think that Bank of America's withdrawal shows that the relationship wasn't a good one"

Table 1

A five year profile of BCCI

	Total number of branches	of which in UK	UAE Offices	Number of countries	Assets (\$000)	Growth %	Capital (\$000)	Growth %	Deposits (\$000)	Growth %	Profit before Tax (\$000)	Growth %	Gearing (%)	
1973	19	4	8	7	5	200,832	—	5,206	—	191,145	—	335	—	2.661
1974	27	7	15	5	7	610,167	203.8	11,104	113.3	581,048	204.0	2,918	771.0	2.022
1975	64	19	19	26	13	1,206,371	97.7	23,982	116.0	1,151,096	98.1	9,732	233.5	2.028
1976	108	29	28	31	21	1,656,439	37.3	50,070	108.8	1,506,030	30.8	20,012	105.6	3.117
1977	146	45	29	72	32	2,200,000	32.5	113,670	128.7	2,009,000	33.4	25,900	29.4	5.445

1. Basis of calculation: Capital fund comprising of paid up capital, short-term loan, capital notes, reserves, retained earnings and minority interest.

to earnings, while others opened in northern industrial areas that contained substantial Pakistani populations. Surprisingly, on the figures supplied to us by BCCI (Table 2), the UK operation is not as profitable as the rest of BCCI's business. While the bank's UK assets of \$160 million represent more than 7% of BCCI's total balance sheet, UK profits contribute only 3% of total earnings. But London also serves as the bank's headquarters and is a favourite holiday place for many of BCCI's more important customers and shareholders. The sight of BCCI's limousines awaiting the bank's friends at Heathrow airport, for example, is not at all uncommon.

Abdel, however, reacted strongly to the suggestion put to him during the interview that BCCI had become an ethnic bank in the UK, serving the Pakistani immigrant population and Middle East visitors. "We prefer," he said, "to be called a multinational operation." But "turning on the British population to BCCI is not easy and it will take a long time."

Abdel disputed that BCCI's growth, especially in the UK, has meant that it has become extended on the management side. "Our growth has been a balanced one in all directions." He believed that BCCI has adequate management capability, and said that 40% of BCCI's total global staff of 2,700 are not working to full capacity.

He has, however, called a halt to the bank's growth in the UK and that has been done with one main purpose in mind: to persuade the Bank of England to give it a full banking licence. It is said that BCCI has been on the waiting list for authorization longer than any other bank. It is also said that the Bank of England partly granted it in 1976, but then drew back when it saw just how fast BCCI's expansion was progressing. "The Bank of England probably hasn't given permission because of the atmosphere surrounding the BCCI and the propaganda that has been spread about us," Abdel said, who referred to the long-established banks of the City as the "Club".

"It is not only the Bank of England that is against us, but the Club," he claimed. "After all, United Bank of Pakistan

got its full licence after just one year's operation in London." He admitted, however, that the bank was not in a hurry to achieve authorized status (which allows banks to deal in foreign exchange). "While we are waiting for it, we shall continue to increase our capital and improve our leverage position." In the meantime, BCCI in the UK is limited to taking foreign currency deposits of no more than \$75 million, while on sterling business the bank is limited only by the Bank of England's 12% minimum reserve ratio.

The global leverage position could certainly do with improving. Table 1 shows that the ratio of capital to liabilities (BCCI's own figures) actually fell during 1974 (not a great year for banking) and even now stands at less than 5%. This may be one of the factors that has deterred the Bank of England from granting it authorized status. Abdel certainly recognized the need to improve its gearing: "By 1980 we hope that our leveraging will have improved to 7%," he said.

That growth in assets alarmed not only the Bank of England, it alarmed Bank of America as well, and is reported to be a major source of disagreement between the two, in spite of Abdel's denials. By 1976 these disagreements had resulted in B of A imposing a moratorium on the raising of new capital to finance BCCI's expansion, a moratorium that has since been lifted in line with B of A's decision to pull out.

Asset growth in the Middle East has also been phenomenal, particularly in the United Arab Emirates which ran into a banking crisis last year. BCCI has 11 branches in Abu Dhabi, nine in Dubai and nine spread through the other emirates; it was a prime target for imitators, but in our interview Abdel claimed that it had remained very liquid throughout the crisis, and that when two Bank of England officials had been called in to advise the UAE Currency Board, BCCI was pleased to open its books and disclose all its figures to do that again the books would show that out of 114,000 accounts maintained at BCCI, around 50,000 are in the UAE. Some 25,000 are in the UK.

But it has run up against an apparent brick wall in Bahrain where it requested a commercial banking licence in 1973. The Bahrain Monetary Agency did not exist at the time: all requests had to be submitted to the Prime Minister. BCCI was turned down on the grounds that the number of commercial banks allowed in Bahrain was limited, but that when the policy was relaxed a licence would be issued. The bank is still waiting, although in the meantime it has been given an offshore banking unit licence that it has still to take up. "Most OBU business we can do in Abu Dhabi and Dubai and through our subsidiary in Kuwait," commented Swiss Nagel.

Somehow, BCCI appears to have an uncanny knack of making a name for

Table Two

Africa's contribution to profits

	Deposits (%)	Amount (\$m)	Assets (%)	Amount (\$m)	Pre-tax profits (%)	Amount (\$m)
Middle East	46	924.0	45	990.0	46	11.9
UK & Europe	22	442.0	27	594.0	16	4.1
of which UK	13	261.2	7	160.0	3	0.7
other Europe	9	180.8	20	434.0	13	3.4
Africa	13	301.4	12	264.0	18	4.7
Far East, Cayman Is.	17	341.6	16	352.0	20	5.2
	100.0	2009.0	100.0	2200.0	100.0	23.9

The African connection

One of Bank of Credit and Commerce International's most unusual relationships is in Swaziland, where BCCI is establishing a new joint venture bank, called the Swazi Nation Development Trust Fund, with the King of Swaziland, King Sobhuza II. The king, the world's longest reigning monarch, will not only own 45% of the bank, but he will deposit between \$20 and \$30 million during the first day's business to get it off to a flying start. The documentation forming the new bank was to be completed late last month. The bank will have a capital of only \$1 million.

Swaziland's major exports are sugar, peaches and pineapples. In turn, the king, who prolonged parliament five years ago and has ruled under a state of emergency ever since, controls export licenses. The new bank hopes to carve out a significant part of Swaziland's trade financing business, and to finance new building of sugar mills. It will also set up subsidiaries in nearby Lesotho and

Botswana.

Africa is central to Abedi's strategy. Already it makes a significant contribution to group earnings; last year, for example, it accounted for 15% of pretax earnings, or \$4.7 million. Abedi told us that he considered banking opportunities in Africa, partly because of the relative unsophistication of the existing banking system in some parts, and partly because of the comparatively higher spreads available. So BCCI is looking further afield at Nigeria and Malawi.

It already has six branches in Egypt, easily the most profitable of the African operations; it also has two branches in Kenya, and a single branch in each of the following: Ivory Coast, Sudan, Gabon, Morocco, Djibouti and Mauritius. That's not all: there are joint ventures in Ghana and Liberia. And in the Sudan another BCCI branch is due to open this month: unusual, because every other bank in the Sudan has been nationalized.

itself in whatever market it operates. Nowhere was this more apparent than in the US where it formed an association with one of the most controversial figures of all, Bert Lance. We have already described Abedi's account of how BCCI introduced Lance to Pharoah, and of the deal that resulted from that meeting. Just as intriguing was the deal that resulted from Lance's recommendation that four of BCCI's clients — Sheikh Kamal Adham, ex-chief of Saudi Arabian intelligence; Sheikh Sultan al Nahyan, crown prince of Abu Dhabi; Abdallah Darwish, adviser to the latter's family, and Fa'iq Saud al Fetaif, a Kuwaiti and a major shareholder with BCCI in Kuwait International Finance Company — buy into Financial General Bankshares, a bank holding company that has bank holdings in 14 states of the union. Lance recommended to those four BCCI clients that they purchase 4.9% each of Financial General, just enough to keep them within the Section 13d SEC regulation prohibiting purchases of 5% or more without permission. That deal brought an SEC allegation that BCCI was acting in concert with Lance and the four clients to secretly gain control of the bank holding company. But subsequently the allegation was dropped when

group gain control than BCCI would probably manage the US bank holding company.

BCCI stated to us that Lance is paid a retainer by ICIC to seek out suitable investment opportunities in the US, but refused to state the size of that retainer. However, it disclosed that Lance is also paid a commission for each deal that comes to fruition — presumably he is being paid a commission for the sale of the shares in Financial General. The \$3.6 million loan made to him by BCCI is still outstanding, the bank claimed, and that is to be repaid by him when the deal involving the sale of his stock in National Bank of Georgia is concluded. Abedi told us that he had first met Lance in London soon after Lance's resignation, and had there and then decided that Lance had the

necessary credentials to work for BCCI.

The major shareholders at BCCI are one of the greatest points of contention. It's said that some of the most prominent Middle East rulers own stakes in the bank, although there are some that disbelieve this. BCCI provided E-womony with a complete list of its shareholders on the understanding that they were not to be published: we were obliged to accept that, but within that understanding we can confirm that the list includes members of the ruling families of Abu Dhabi, Dubai, Sharjah, Bahrain, Saudi Arabia and Iran. Our diagram shows the unique structure of the shareholdings. Many of them are men of untold wealth.

One of BCCI's most prominent Middle East shareholders hides behind the anonymity of two holding companies: Stock Holding Company SA and BCC Holding Company SA. Any company registered in Luxembourg does not, however, need to be informed of any changes in the shareholding of the company.

Bank of America's shareholding fell to 24% when it decided not to take up some of the \$10 million rights issue in December 1977. During the same month BCCI Holdings issued capital notes for \$20 million. According to BCCI notes worth \$2 million were placed through BCCI's associate, Kuwait International Finance Company (KIFCO). KIFCO approached two Kuwaiti based investment companies with a view to selling the BCCI paper. One did. The other was interested but out of liquid funds. As a result KIFCO lent the investment company \$1 million to buy some of the BCCI paper with a repurchase agreement to buy back the paper in six months time. One of BCCI's Middle East shareholders took a substantial part of the \$20 million issue for his own personal portfolio.

The most recent shareholder in BCCI is Dr Ghazi Pharoah, a Saudi Arabian businessman who has been in the news recently for his deal with Lance. Pharoah is a possible buyer of Bank of America's stake in BCCI, valued by BCCI at \$18.7 million, at book value but at present he owns only 4.5%.

Pharoah aside, Middle East interests own 35% of BCCI, valued at \$27.3 million. The remaining 41% is held by a Cayman Islands-registered company called International Investment and Credit Overseas Ltd. In the past year, ICIC Overseas has become the largest

We can confirm that the list includes members of the ruling families of Abu Dhabi, Sharjah, Bahrain, Saudi Arabia and Iran. Many of them are men of untold wealth.

shareholder: through Abedi's direction, or so he said, Middle East shareholders sold part of their holdings to ICIC Overseas. The two major ruling family shareholders each held around a fifth of the shares when BCCI was founded six years ago. Their shareholdings have now been cut to less than 5%. Altogether there are 22 Middle East shareholders in BCCI, of which 17 are members of ruling families. Of the remaining five, one is a Kuwait-based company, and the rest are Middle East businessmen, of whom Pharaon is the most prominent.

ICIC Overseas, which owns 41% of BCCI Holdings, was set up in April 1976 in the Cayman Islands. It now has assets of \$22 million. ICIC Overseas is, in turn, wholly owned by ICIC Holdings, which was formed at the same time. The latter is a joint stock company, which is in the process of being turned into three separate companies: 35% of ICIC Holdings is owned by Bank of Credit and Commerce Foundation with assets of \$7.7 million, 35% by ICIC Staff Benefit Trust with similar assets of \$7.7 million, and 30% by ICIC Business and Promotions, with assets of \$6.6 million. All three companies are incorporated in the Cayman Islands. BCC Foundation and the ICIC Staff Benefit Trust are both registered as trusts. ICIC Business Promotions is formed by guarantee. Each has four trustees and a board of directors

"We are quite serious about wanting to create a foundation for charitable purposes; foundations are generally created for business reasons, but ours is genuine and unique"

but will operate independently of each other.

BCCI's merchant banking activities are to be expanded, but slowly. Already BCCI Finance International in Hong Kong has three branches. It has participated in several Eurodollar financings. The subsidiary in Hong Kong also houses several numbered accounts that according to the report and accounts are not audited. The amount involved is \$56 million. The Credit and Finance Corporation, which is wholly owned by BCCI Holdings SA, is another merchant bank that will soon start operations in the Cayman Islands. It was originally planned for the company to be registered in London.

BCCI revolves around concepts. There is, for example, the BCCI management system which is actually called the Concept. That, in turn, is probably a

distillation of the ideas that Abedi culls from his management books, with a dash of eastern philosophy. But it is Abedi's concept of what he calls "above and below the line" that probably matters more to his shareholders. It boils down to this: Abedi's dream is to create a bank with assets of \$4 billion that will create profits (that's the *above-the-line* bit) which in turn will be paid into a foundation that will dispense charity (that's *below the line*). But who will the beneficiaries be? Abedi shied away from that question, and when pressed, said: "We are quite serious about wanting to create a foundation for charitable purposes: foundations are generally created for business reasons, but ours is genuine and unique." And so, at the end of it all, the purpose of the BCC Foundation remains a mystery. "There are certain values," said Abedi quietly, "to which we are dedicated." □

This announcement appears as a matter of record only

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April 1978

Business Finance

A-14 WEDNESDAY,
X AUGUST 30, 1978

London Bank Planning Takeover, FG Claims

By Rudolph A. Pyatt Jr.
Washington Star Staff Writer

A London-based bank is planning an eventual takeover of Financial General Bankshares Inc., on the assumption that a successful tender offer will be made for the Washington bank holding company, lawyers for Financial General claim.

The claim is contained in an affidavit filed in U.S. District Court here yesterday by attorneys for Financial General.

The affidavit was filed in conjunction with a motion asking the court to compel giant Bank of America to turn over certain documents to Financial General.

The bank holding company contends that the documents held by Bank of America are critical to Financial General's pending lawsuit in which it has accused several defendants of an illegal takeover attempt.

Among those which Financial General named as defendants in the suit it filed in February are Bank of Credit and Commerce International, a Luxembourg corporation with principal offices in London and controlled by Middle Eastern interests.

BANK OF AMERICA, the country's biggest bank, owns a 16 percent interest in BCCI. At the end of last year its interest in BCCI was slightly higher, at 24 percent.

The motion seeks to have Bank of America return to Financial General certain documents which were turned over to the Washington company earlier this month in connection with depositions that were taken from two of Bank of America's officers in London. The documents purportedly contain damaging information about the operation and financial condition of BCCI.

In court papers filed yesterday,

Financial General said that its attorneys had agreed to a stipulation that Bank of America would provide copies of the original documents, including a credit examination report on BCCI. However, a Bank of America official refused to comply with the promise to produce the copies, according to the motion and affidavit filed by Financial General.

THE MOTION ALSO asks that Bank of America be held in contempt and that it be made to pay Financial General costs and attorneys' fees in connection with the action.

See BANKSHARES, A-17

BANKSTRAKES

Continued From A-14

A Bank of America official reached in San Francisco yesterday said: "We were aware that the motion would be filed and we will be filing our own motion and responding to this motion in the near future."

In his affidavit, Douglas M. Kraus, an attorney for Financial General, says he was advised that Robert A. Altman, a Washington attorney who represents BCCI, had written a letter "threatening Bank of America with liability . . . if (Bank of America) permitted public disclosure of the documents. Bank of America took the position that it would only return the documents to FG if ordered to do so by a United States court," Kraus says in his affidavit.

Altman was out of the city yesterday and could not be reached for comment.

KRAUS MAINTAINS that although he did not have an opportunity to review the documents in question, an associate directed his attention to a two-page summary which allegedly shows that:

- BCCI's loan loss reserves of approximately \$3 million were inadequate and should be increased to \$17 million.
- BCCI "had engaged in the practice of making substantial loans to what the report termed 'insiders'."
- BCCI's real estate loan portfolio was unsatisfactory.

In addition, says Kraus, one of the documents contained a statement to the effect that Bank of America should have one of its officers present at BCCI "at all times." Indeed, a Bank of America official testified in deposition that an officer has in fact, been installed at BCCI since late 1975, full time, and that his salary is reimbursed to BCCI by Bank of America, according to the Kraus affidavit.

At another point, Kraus says that a review of the Bank of America documents shows that BCCI or its subsidiaries or affiliates have made substantial loans to three of the four Middle Eastern defendants in the Financial General suit claiming a conspiracy to take it over. Moreover, according to the Kraus affidavit, one of those defendants — Faisal Saud Al Fulajj — received a \$5 million loan from a BCCI subsidiary to purchase

his shares of Financial General stock.

FINANCIAL GENERAL'S shareholders "are entitled to know that Bank of America — the largest banking institution in the United States — has concluded that BCCI is engaged in banking practices that fail to meet Bank of America's standards, and/or which might be considered to be unsafe and unsound in comparison to prevailing American banking standards," the bank holding company contends in the affidavit.

That contention — that shareholders are entitled to know more about groups who may gain control of the company — has been made repeatedly by Financial General as it proceeds at length to obtain depositions from principals named in the civil action that has dragged on for seven months.

"Disclosure of this information is especially important, since the facts developed to date strongly suggest that BCCI will effectively control the operations of FG if the forthcoming tender offer by the Middle Eastern defendants is successful," insists Kraus.

Middle Eastern defendants in the civil action have already served notice that a formal tender offer will be made for Financial General stock. That disclosure was made following a consent agreement resulting from a Securities and Exchange Commission action charging several defendants, including Bert Lance, BCCI and the Middle Eastern principals of violating the Securities Act in purchasing FG stock.

COURT PAPERS filed yesterday disclosed for the first time that Financial General believes that the forthcoming tender offer for shares will be made by Credit and Commerce American Investment, B.V., a Netherlands corporation that is supposedly owned and controlled by Credit and Commerce American Holdings, N.V., a Netherlands Antilles corporation.

Documents filed yesterday also claim that discovery actions show that Agha Hasan Abedi, BCCI's president, met with several advisers in London recently to discuss, among other things, "who should become the president and chief executive officer of FG in the event that a tender offer is successful. Thus, it is apparent that BCCI would not only manage the operations of FG but is also actively engaged . . . in selecting the management team that would run FG if the tender offer succeeds."

Financial General argues that BCCI's objections to Bank of America's production of the documents in question "are nothing more than an improper attempt to interfere with FG's discovery rights."



WHITE PAPER ON

THE CONDUCT OF THE
GENERAL ELECTIONS
IN
MARCH 1977

GOVERNMENT OF PAKISTAN
FAWALPINDI, JULY 1978

The papers relating to this inquiry were retrieved from the Prime Minister's House only in May, 1978. In the following month the Federal Investigation Agency was directed to reopen the inquiry. The results are still awaited. The ramifications of the deal are many excluding the question of the surcharge deposits and the interest charges thereon.

The Party Funds

The main account of the PPP was maintained in the Habib Bank Limited, Cantt. Branch, Kashmir Road, Rawalpindi. The account number is 22830. The account was maintained in the name of the Chairman PPP and was operated by Mr. Zulfikar Ali Bhutto himself.

Annexure 249 is a signed statement by the Senior Manager of the concerned bank, which shows the month-wise amount available in this account from 1st July, 1976, to 6th July, 1977. The position for the calendar years 1976 and 1977 emerges as follows :—

Year				Deposits	Withdrawals
1976	..	..	..	18,95,401.54	10,14,384.00
1977	..	..	..	59,66,525.75	6,89,890.90
Total				78,61,927.29	17,04,274.90

A perusal of the account shows that hardly seven or eight withdrawals were made from the account during the two calendar years mentioned above. Among the major withdrawals are two made in favour of Mr. Nasir Ali Rizvi, Secretary General, PPP. A sum of Rs. 2,00,000 was withdrawn in his favour on October 21, 1976 and another sum of Rs. 2,95,206 on January 28, 1977. Another major amount of Rs. 3,48,800 was withdrawn in favour of Mr. Hamid Jalal (Additional Secretary, Information) on 1st June, 1977.

The only other significant withdrawal which was made during the period under review was Rs. 5,60,230 in favour of the Chairman, Evacuee Trust Board. It would appear that this amount related to the purchase of a plot on Lawrence Road, Lahore, for the purpose of constructing the party headquarters.

According to the bank statement, the balance in this account on January 1, 1977 was Rs. 8,84,017. During the months of January and February, 1977, the balance steadily mounted up and reached a peak of Rs. 55,22,616/14 on February 1, 1977. Most of the money came by way of deposits of Rs. 1,000 each from the applicants for the party tickets for the National Assembly, and Rs. 500 each from those who were desirous of contesting for the Provincial Assembly on behalf of the PPP. This was a legitimate source of party funds but the most astonishing part of the story is that the amount thus collected was never utilised for election purposes. As stated earlier, only seven or eight withdrawals were made from this account. The rest of the money i.e. about Rs. 54

lacs was lying as fixed deposit with the bank. Annexure 250 is one sheet of the bank statement which shows a transfer of Rs. 51,44,000 to the fixed deposit account on February 14, 1977.

The only possible inference can be that apart from the provincial party funds, Mr. Z. A. Bhutto relied mainly on the secret service funds, disbursed by Mr. Afzal Said Khan and his section officer, for election purposes. The disbursement of the secret funds has been discussed earlier in this chapter. The payments made to the NWFP Chief Minister and other party leaders, for example, were from these funds. This was, of course, apart from the misuse of State resources like transport, media, telephones etc.

The other large source of funds was the money brought in by Agha Hasan Abdi. This was disbursed by Begum Bhutto as disclosed by Mr. Afzal Said Khan and indirectly confirmed in the note (Annexure 17) of Mr. Rafi Raza of October 9, 1976. Part of this money may have been diverted to the provincial party funds. Contributions from industrialists and businessmen also were collected.

To sum up, about two or three crores of rupees were brought in by Agha Hasan Abdi. The diversion of Rs. 1.92 crores from the secret funds stands confirmed. The expenditure, judged by the Punjab figures, does not quite add up to the collections which are on the cards. There must be substantial balances still floating around in cash or in hidden accounts.

The other account which has been examined in some detail seems to belong to the Punjab Provincial PPP which was operated by the Secretary to the Chief Minister. The account was maintained by the Allied Bank of Pakistan, WAPDA House Branch, Lahore. Eight sheets of the bank account can be seen at Annexure 251 to 228.

This bank statement covers the period January 21, 1977, to July 5, 1977—the election campaign period and after. The statement opens with a cash deposit of Rs. 15 lac on June 21, 1977. There are only four subsequent accretions to this account as detailed below :—

Amount						Date
Rs.	58,500	(by transfer from S.B.A/C No. 1363)	..	..	..	15-2-1977
Rs.	15,00,000	(cash)	..	..	..	15-2-1977
Rs.	14,95,000	(cash)	..	..	..	26-2-1977
Rs.	5,00,000	(by transfer)	..	..	..	23-5-1977

It will thus be seen that out of a total amount of Rs. 50,53,500 deposited (including the initial cash deposit of Rs. 15 lacs) in this account, all but a meagre amount of Rs. 5,58,000 was deposited in cash. The total amount utilised during the crucial election period was Rs. 45,53,500.

out of this account. The list of persons who were given money out of this fund can be seen in the bank statement itself. Notable political persons were the Secretary General of the PPP, Shaikh Rashid. Dr. Mubashir Hasan, and more significantly, Rao Khurshid Ali Khan, who used to be identified as a PPP "rebel." What takes the cake is that three Deputy Commissioners of Multan, Dera Ghazi Khan, and Muzaffargarh have also been paid certain amounts. No better proof could be provided to show how the district administration became a tool of the ruling party.

Similar party accounts must have been maintained at the other three provincial headquarters. There are clues to other accounts/funds as well which are being identified and have yet to be investigated.

PNA Funds

How the PNA fought the general elections or raised the necessary funds is not the subject matter of this White Paper which is basically confined to the conduct of the general elections—a task shared by the ruling party and the Election Commission. Mr. Bhutto, however, did express his opinion on the source of the PNA funds. In fairness to him, this must be put on record.

Addressing the joint session of the National Assembly and the Senate on April 28, 1977, he observed :

"Is it a secret that in the past few months, foreign currency has flooded Pakistan; so much of it has come that I can find no parallel for this influx. The rate of the dollar in Karachi, as a result, has gone down to seven rupees, to six rupees. The money is being used to bribe people to do various things; they are being bribed to go to jail, they are being bribed to give *azaans* (the Muslim call to prayer), many postmen, milkmen and meter-readers are being bribed to distribute anti-PPP literature.....

"Dollars have been dished about. My *party members* have been bringing this to my notice. But I did not rush out to protest....."

Another reference in the official papers to the dollar influx is to be found in the minutes of the daily meetings of the then Information Minister, Mr. Tahir Mohammad Khan, with media chiefs. The minutes of the meeting held on April 27, 1977, refer to a directive to the PPP to circulate a news-story that the dollar was selling at a cheaper rate at Quetta and Peshawar. The idea perhaps was to prepare the ground for Mr. Bhutto's charge. The charge was levelled but Mr. Bhutto preferred to cite the Karachi market.

In his oath-taking speech in the newly "elected" National Assembly on March 28, 1977, Mr. Bhutto, however, had spoken in a slightly different vein. In that speech he had said :

"I shall, if provoked and if the context is relevant, quote chapter and verse how they claimed in their inner council that their strength, resources and finances came from far beyond the oceans."

"Was it right for the Opposition members to behave so irresponsibly as to claim that they were bound to win in the election because their resources came from far beyond the frontiers of Pakistan? . . .

....I would not like to believe the claims made by the Opposition in this regard; they seem to be frivolous, immature and irresponsible, because, as you know, our relations with all countries of the world are excellent....."

From the PPP platform in subsequent speeches the charge continued to reverberate that the PNA had received foreign assistance. The figure of Rs. 25 crore was mentioned. It was even suggested that the Pakistan currency had disappeared from the Gulf market. If it did, it might have had something to do, apart from the doings of the PNA, with the travels of Agha Hasan Abdi, loaded as he used to be with bagfuls of money.

Mr. Bhutto, for his part, never quoted the promised "chapter and verse" to stick the charge on the PNA. He never produced any other evidence while he remained in power, or afterwards. Although original letters are being produced before the Supreme Court by his lawyers, no documents pertaining to the foreign funds, allegedly received by the PNA, have so far come to light.

The records retrieved from the Prime Minister's Secretariat do contain references to internal financing of the PNA. A source report (Annexure 259), sent by Rao Rashid to former Prime Minister vide his letter (Annexure 260) dated April 12, stated :

"Among these who have contributed large sums of money to the PNA fund in Lahore are : Minno Shahzada, Nasim Sehgal, Fazal Din and Sons, Sheikh Salim Ali (of Din Taxis).....

"The largest contribution to the PNA agitation fund is reported to have been made by the Gujranwala traders....Among the several persons named was one 'Haji Black' whose nephew, Aziz Ansari (now in jail on charges of attempt to murder and other offences) was politically most active....He should not be released as long as the agitation continues.....

"The Income Tax Department, the Excise and Taxation Department, etc., may be asked to take care of these industrialists so that they be engaged elsewhere and cease taking interest in the agitation. The Commerce Ministry may also be asked to blacklist these persons for the time being and not to issue any import-export licences to them until the agitation ends, so that they may give more attention to their business problems and less to the political agitation."

In Some Arab States Helped in Plane Sales

An Envoy and a Saudi Aide
Had a Part in Egypt Deal;
Firm Denies Any Payoffs

SEC vs. State Department

By JERRY LANDAUER

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON - In the lucrative Middle East aircraft market, Boeing Co.'s dominance stands out like the Pyramids of Egypt - or so it seems at times to Boeing's chief competitors.

For example:

In the winter of 1975, executives of McDonnell Douglas Corp. believed they had scored a business coup. McDonnell Douglas had just received a letter of intent from Egyptair, the Egyptian government airline, to buy a fleet of six jetliners. Egyptair had even sent a small down payment.

Yet the Egyptian government withheld approval for the big order. Within a month Egyptair rescinded the commitment to McDonnell Douglas and switched the jetliner business to Boeing - after Boeing had swiftly mobilized a secret network of power brokers that few other American exporters can match.

Such events have led to an almost-three-year investigation by the Securities and Exchange Commission of Boeing's overseas commission payments. But the company stoutly denies that it paid any bribes to foreign government officials, and the SEC hasn't produced evidence to contradict that contention.

Keeping the Names Secret

Meantime, Boeing has managed to keep the names of its Mideast supersalesmen from public view. This has been accomplished with significant help from the State Department, which entered a court fight between the SEC and Boeing to argue that disclosure of Boeing's "highly placed" consultants abroad could harm U.S. foreign-policy interests. Nonetheless, through sources in and out of government, it is possible to reveal a glimpse of Boeing's well-connected allies in some Arab governments.

To win the Egyptian order, for example, Boeing called up its biggest gun. He is Mahdi Tajir, ambassador to London and Paris from the United Arab Emirates; this is a federation of seven sheikhdoms in the Persian Gulf that includes vastly wealthy Abu Dhabi. Ambassador Tajir is a friend of the ruler of Abu Dhabi, Sheik Zayed bin Sultan al-Nayhan, who devotes part of his oil revenues to the cause of Arab solidarity. Encouraged by the ambassador, Sheik Zayed agreed to advance Egypt up to \$90 million, according to U.S. government agencies. That sum was far more than enough to buy

Next, James McDivitt, Boeing's vice president for international sales in Beirut, called Kamal Adham into the fray. Mr. Adham, who is related by marriage to the royal family of Saudi Arabia, then headed the Saudi foreign-intelligence service. He was the late King Faisal's designated contact man with the U.S. Central Intelligence Agency.

Millions in Commissions

Mr. Adham is especially close to President Anwar Sadat of Egypt, a country that requires Saudi subsidies to keep going. Acting on Boeing's behalf, U.S. agencies say, Mr. Adham intervened at high levels of the Egyptian government to make sure that the sheik's money was used to buy Boeing planes.

So Boeing was in - although at a price. Over the years, the company has paid many millions of dollars in commissions to Mr. Adham and to Ambassador Tajir, the friend of the openhanded sheik.

Boeing's executives believe, and have often said, that the company has won a majority share of the world market for commercial aircraft by offering superior products and better service. Yet Boeing's Mideast connections have also helped and not just in Egypt.

Success for the Syrians

In 1974, the sheik of Abu Dhabi agreed to advance the government of Syria more than \$100 million to help the Syrians recover from losses sustained in the Yom Kippur war against Israel.

The sheik's \$100 million came as Syrian Arab Airlines was deciding what kind of jetliners to acquire. Among the major competitors were Boeing, McDonnell Douglas and Lockheed Corp. Lockheed was thought to have the inside track. But, as in the Egyptair deal, Boeing again prevailed, mostly because none of Boeing's competitors had equal access to Ambassador Tajir's timely assistance or, through him, to Sheik Zayed's financing.

First, the sheik's \$100 million was placed in an interest-bearing Swiss account for many months. Then it was used by the Syrian government to buy two Boeing special-performance 747s plus three advanced 727s. The interest on the sheik's money, \$4 million or more, flowed into a secret account at Banque de Gestion Financiere in Zurich. It is believed that men who had steered Syria's business to Boeing shared in the proceeds.

For some reason, though, Sheik Zayed became tightfisted in late 1976. Ambassador Tajir had arranged another huge advance from Abu Dhabi, in excess of \$100 million, to King Hussein of Jordan, for the purchase of two Boeing 747s. Yet, even as the big jets were being assembled in Seattle, the sheik balked. Eventually, though, he heeded King Hussein's pleas and provided Jordan \$30 million. The remaining costs, more than \$70 million, had to be financed by Jordan, in part with a credit from the U.S. Export-Import Bank.

Before the quadrupling of oil prices era.
Please Turn to Page 2 Column 1

Continued From First Page

bled Ambassador Tajir to unzip the sheik's bulging purse. Boeing's Middle East sales efforts were aided by other Mideast financiers. One was Roger Tamraz, a Harvard-educated financial whiz who formerly was chairman of a Beirut subsidiary of Kidder Peabody & Co.

Mr. Tamraz earned large commissions from Boeing for assisting with Mideast aircraft sales. For example, as chairman of the Kidder Peabody subsidiary, in 1972 he arranged the first significant commercial loans to Egyptair - \$52 million to buy four Boeing 707s.

In late 1976, after inquiries by the SEC's enforcement division, Kidder Peabody investigated suspicions that Mr. Tamraz might have instructed Boeing to funnel under-the-table payments to political personalities in the Middle East. But an internal investigation failed to turn up evidence of wrongdoing. (Mr. Tamraz had resigned from Kidder Peabody in 1974.)

Boeing also received unusual help from the U.S. embassy in Beirut in 1968 in a pivotal sale that helped establish Boeing's strong position in the swiftly growing Middle East market. On that occasion, Boeing was competing against British Aircraft Corp. for sales in Lebanon. At a critical point, Mr. McDivitt was away pursuing aircraft deals in Turkey. So, diplomats report, the U.S. embassy in Beirut made a commitment on Boeing's behalf to pay two influential Lebanese businessmen for persuading Middle East Airlines to delay a purchase decision until Congress passed the then-pending Export Expansion Act.

Passage of that law, which loosened U.S. credit terms, enabled the Export-Import Bank to match Britain's favorable financing offer. Later, Boeing appointed the two Lebanese businessmen as consultants and paid them probably \$1 million, according to one U.S. diplomat in the Mideast.

"Occasionally we seek and receive advice from U.S. embassy staffs in various parts of the world to help us market our products," a Boeing executive says, speaking generally. "But the support we receive is no greater than would be extended to any other American firm whose sales help the nation's balance-of-payments problems." Boeing also contends that the company's identification with questionable sales activities abroad since the government began investigating "has been seriously overblown."

During the SEC's long investigation of Boeing's overseas payments, the company has quietly changed its Middle East sales arrangements. Now, for the first time, Boeing isn't selling aircraft directly to the ultimate customer. Instead, it is selling planes to a distributorship, Overseas International Distributors Co.; it was organized in Europe by Mr. McDivitt, the former Boeing vice president who helped engineer Egyptair's choice of Boeing over McDonnell Douglas in 1975. In essence, Mr. McDivitt buys the aircraft from Boeing, after obtaining orders for them in the Middle East.

Last Oct. 15, copies of purchase agreements show, the new firm bought two 737s from Boeing. On the same day, it resold the planes to Saudi Arabian Airlines Corp. The distributor has also purchased from Boeing, and immediately resold, a 747 equipped with elaborate custom-made interiors, for use by

Boeing issued press releases announcing those orders. But the announcements refrained from saying that the aircraft were sold to Mr. McDivitt's distributorship for resale to Saudi Arabia. For example, the press release on the two 737s said only that "two more 737 twin jets have been ordered by Saudi Arabian Airlines for delivery later this year."

"The SEC and the Justice Department are monitoring recently organized distributorship arrangements such as Mr. McDivitt's. The purpose is to make sure that exporters aren't setting up sham sales organizations abroad to shield themselves against the tough-sounding but vaguely worded foreign-bribery law enacted by Congress last December. Under that statute, an executive could be sent to jail if he is found guilty of knowing, or "having reason to know," that bribes were paid to promote his company's foreign sales."

Mr. McDivitt's Overseas International Distributors is registered in the Netherlands, primarily for tax purposes, and operates from Geneva. It is backed by a group of non-Americans who clearly have influence. Boeing says the company doesn't know who they are, and Mr. McDivitt won't identify them. But Overseas International's

impressive sales record certainly suggests, and high U.S. government officials believe, that he is working with at least some of the supersalesmen who helped Boeing in the past.

The Battle Over Confidentiality

Boeing contends that the names of these operatives constitute highly sensitive proprietary information, and the company has been battling with the SEC for nearly three years to protect this information against competitors.

All along, too, Boeing has consistently asserted that the \$70 million it paid in sales commissions, on gross foreign orders of \$5.5 billion from 1970 to 1975, was legitimate. "We are one of the very few firms which has contended it hasn't made any illegal overseas payments," Boeing has said. "We refuse to concede that any of our commission payments were illegal."

The State Department also wants to avoid publicizing details of Boeing's sales activities because identifying the company's network of overseas agents, the department says, "could reasonably be expected to cause damage to the foreign relations of the United States."

Late last year, the department impounded a federal court of appeals to seal a list of 18 "highly placed" Boeing consultants. The department contended that some names listed in response to an SEC subpoena "are those of officials of foreign governments or of persons closely associated with them." (Boeing acknowledges that it paid fees to employees of foreign governments in several instances; these don't constitute payoffs, the company asserts, because the employees weren't in position to influence aircraft purchases.)

Publicizing the names of Boeing's consultants before proof of any wrongdoing would be unfair and "should be avoided for foreign-policy reasons," the State Department urged, and the appeals court upheld that position.

But further court conflicts could lie ahead. Though the SEC's long inquiry hasn't uncovered solid evidence to support suspicions of bribery, the commission staff has indicated that some court action affecting Boeing sales practices is possible. The company says it hopes to settle any SEC suit without lengthy litigation.

FUAD ABU-IZZEDDIN & Co.
CERTIFIED & PUBLIC ACCOUNTANTS

FUAD ABU-IZZEDDIN :
M.S.A. F.C.C.A. (LONDON)
FUAD ABU-IZZEDDIN :
M.S.A. C.P.A. (NEW YORK)

LEBANON
BEIRUT - P. O. BOX 1242 - TEL. 232154
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SAUDI ARABIA
JEDDAH - P. O. BOX 383 TEL. 23680
TELEG.: FUADIN JEDDAH
RYAD - P. O. BOX 476 - TEL. 20868
TELEG.: FUADIN. RYAD

Jeddah, June 19 th 1978

جده في ١٩/٦/١٩٧٨

CERTIFICATE

To whom it may concern

شهادة
الى من يهمه الأمر

Without any responsibility, we
certify that the estimate
of the net worth properties
investments of H.E. Kamal
as at June 15th 1978, is
U.S. Dollars 134.000.000.- as

بدون أدنى مسؤولية علينا فاننا نشهد أن صافي
القيمة التقديرية لممتلكات واستثمارات معالي الشيخ
كمال أدهم في ١٩٧٨/٦/١٥ تبلغ ١٣٤ مليون
- دولار أمريكي جنبه كالاتي :-

U.S. Dollars
Buildings 100.000.000
Saudi Arabia 8.000.000
Outside 26.000.000
Total 134.000.000
Millions
=====

الشخص	- دولار أمريكي
أراضي وياني بالمملكة العربية	١٠٠٠٠٠٠٠
المعمورة (New number)	
صافي وممتلكات بالخارج	٨٠٠٠٠٠٠
استثمارات	٢٦٠٠٠٠٠٠
مائة وأربعة وثلاثون مليون	١٣٤٠٠٠٠٠٠
دولار أمريكي	=====

FUAD ABU-IZZEDDIN

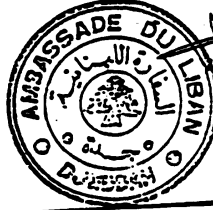
Accountant

نور الدين أبو عزالدين
محاسب قانوني

Date :

We certify on the signature
of Habib Aziz MAMARI authorized
by legal power to sign on behalf
of Fouad Abu Izzedin and Co; cer-
tified and Public Accountants.


RACHID FAKHOURY
Ambassadeur du Liban



نصادق على صحة توقيع السيد
حبيب عزيز معماري اللبناني المقيم
امانا عن مكتب فؤاد ابو عز الدين
محاسب قانوني بموجب وكالة شرعية
تم الاطلاع عليها

رشيد فاخوري
ير لبنان لدى المملكة العربية السعودية

السفارة اللبنانية بجهة غير
مسؤولة عن محتويات هذه الوثيقة

استوفى الرسم البالغ قيمته سبعة آلاف وستمائة ريال
أي ما يعادل خمسة ريال دون المساق
توايح كتمليك لتفادها وذلك بموجب إيصال
رقم ١٩٥/١٩٦ تاريخ ١٩٦٦/١٩



فقدان...
مختصة...
أوتو...
١٩٨٧/٥
١٩٨٧/٥
١٩٨٧/٥

مكتبة الغنمية





INFORMATION STATEMENT

OF

KAMAL ADHAM

Business Address: P.O. Box 1150
Jeddah, Saudi Arabia

Citizenship: Saudi Arabia

Position(s) and/or office(s) currently held (or to be held)
with CCAH and/or CCAI: None

Total number of shares of Common Stock of CCAH which are
now (or it is contemplated will be) owned, beneficially and
of record:

19,020 shares (19.02%)*

* Certain of these shares are subject to an agreement,
dated July 25, 1980, among Messrs. Adham, Pulaij, and
Symington, a copy of which is attached as Exhibit B to
Annex A (the "Symington Agreement").

Allied Arab Bank Limited

Cunard House
88 Leadenhall Street
London EC3A 3DR
Telephone 01-283 9111
Telex 886959
Telegraph Arabal London EC3

Our ref:- FX/FF

19th June, 1978

H.E. Sheikh Kamal Adham,
77, Eaton Square,
London, S.W.1.

Your Excellency,

We are pleased to confirm the following balances as at 19th June, 1978 of amounts placed with us by you on call and on fixed terms:

1. US\$514,680.29 on call presently at 6 3/4% per annum (Statement attached)
2. US\$1,000.000 fixed from 5.12.77 to 5.12.78 at 6 7/8% per annum
3. US\$5,000.000 fixed from 12.4.78 to 12.4.79 at 7 3/8% per annum.
4. US\$3,000.000 fixed from 1.6.78 to 1.6.79 at 7 3/4% per annum.

May we take this opportunity to assure you of our very best attention at all times.

Yours faithfully,
For Allied Arab Bank Limited.


F.C.J. Fernando


E.H.S. Khoo.

Allied Arab Bank Limited

Granite House
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London EC4N 3AD
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Telex 3813401 3813402
Telegrams Arabal London EC4

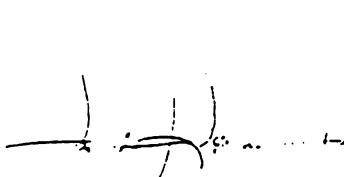
31st October, 1980

TO WHOM IT MAY CONCERN

We hereby confirm that the following balances were held as at 30th April, 1980 in this Bank in the name of H. E. Sheikh Kamal Adham:

US Dollar Current account	\$	38.-	Credit
US Dollar Call Deposit account	\$	2,511,016.75	"
US Dollar Fixed Deposit	\$13,000,000.-	"	
DM 7 Days Notice Deposit	DM	313,614.16	"

for ALLIED ARAB BANK LIMITED



F. C. J. FERNANDO
Senior Manager



E. H. S. KHOO



Allied Arab Bank Limited

Granite House
 87-101 Cannon Street
 London EC4N 6AD
 Telephone 01-283 9111
 Telex 8813401 8813402
 Telegraph Arabal London EC4

22nd April, 1981

Mr. Robert Altman
 Clifford & Warnke
 815 Connecticut Avenue
 Washington D.C. 20006
 U.S.A.


Dear Sir,

We understand that you require a bank reference for His Excellency Sheikh Kamal Adham and it gives us great pleasure to advise you that we have had dealings with this gentleman for several years and have found this relationship to be entirely satisfactory.

His Excellency Sheikh Kamal Adham is one of the most prominent citizens of Saudi Arabia and he is highly regarded in business and financial circles. He has substantial financial resources at his disposal including investments in real estate, banking and trading and industrial activities in Saudi Arabia and abroad.

He is known to have the capacity to make substantial financial commitments and enjoys the reputation of meeting such commitments.

Yours faithfully,



S.M. SHUKRI
 Managing Director
 & Chief Executive

VICE-CHAIRMAN

BARCLAYS BANK LIMITED
54 LOMBARD STREET
LONDON, EC3P 3AH

22nd April 1981

Mr. Robert Altman,
Clifford & Warnke,
815 Connecticut Avenue,
WASHINGTON D.C. 20006,
U.S.A.

Dear Sir,

We understand that you require a bank reference for His Excellency Sheikh Kamal Adham.

We are pleased to advise you that H.E. Sheikh Kamal Adham is one of the most prominent citizens in Saudi Arabia. He is highly regarded and enjoys a first class reputation in business and financial circles.

Sheikh Kamal has important financial resources at his disposal and possesses very substantial investments in Saudi Arabia and abroad, in real estate, banking, and in trading and industrial companies. There is no doubt that he has the capacity to make substantial financial commitments.

Yours faithfully,

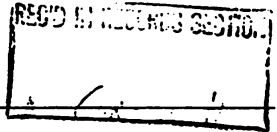
Julian Wathen

J.P.G. WATHEN



DIVISION OF BANKING
SUPERVISORY

MAR 13 11 33 AM



Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

March 12, 1981

Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Board Members:

This is in response to a letter of November 28, 1980, from the Federal Reserve Bank of Richmond requesting the views and recommendation of this Office on the application of Credit and Commerce American Holdings, N.V., Netherlands Antilles, and Credit and Commerce American Investment, B.V., Netherlands, for prior approval to become bank holding companies. Holding company status would be achieved through the acquisition of up to 100 percent of the regular common stock of Financial General Bankshares, Inc., Washington, D.C., a registered bank holding company incorporated in the Commonwealth of Virginia.

Our analysis of this matter has focused principally upon information contained in the application, the confidential supplement to the application and facts gathered as a result of our direct supervisory authority over seven of Financial General's subsidiary banks. In addition, on December 11, 1980, a meeting was held, at their request, with counsel representing the proposed investors group. That meeting provided useful clarification of the group's post-acquisition plans regarding Financial General.

The current application is an update and resubmission of a similar application filed with the Federal Reserve Bank of Richmond in October, 1978. In a letter dated December 26, 1978, in response to a request for comment, this Office advised the Board that additional information considered pertinent to the application was required before an informed recommendation could be made. Since the current proposed transaction involves the same principal investors, our prior concerns continue to be relevant. The status of the five major items listed in our December, 1978 letter, (a copy of which is attached) is discussed below in light of the information submitted with the Federal Reserve Bank of Richmond's November 28, 1980, request and other information available to this Office as a result of its supervisory responsibilities:

- (1) Detailed biographical and business experience background information on the proposed new senior management of Financial General was not submitted in either application. At the December 11, 1980 meeting, counsel for the investors group acknowledged the importance of strong management. They indicated that, prior to final Board action on this application, the candidate selected to become the chief executive officer of Financial General by the representatives of the investors group would be submitted to the Board for consideration. They also

R 01766

SHANN, SHANCKA

indicated that the investors group would be prepared to submit to the Board a comprehensive operating plan for Financial General and would be willing to discuss with the agencies those plans in relation to the holding company system's future operations. Satisfactory accomplishment of these commitments will minimize uncertainty and concern regarding the future direction of Financial General under the proposed new ownership.

- (2) The October, 1978, application did not provide complete information on the sources of the funds needed for the acquisition. Additional detail was included in the current application, especially with respect to the actual amount of personal funds that will be contributed toward the acquisition by each investor. We have been informed by counsel that none of the investors are borrowing to finance their respective equity contributions. Although a definite loan commitment has not yet been obtained for funding the residual balance of the total acquisition cost, we were informed by counsel that negotiations were proceeding toward obtaining the necessary financing. Before taking final action on this application, the Board may wish to obtain all pertinent facts regarding the funding arrangements for the loan. Particular attention should be given to terms, backgrounds of the lender and broker, if such services are utilized, and any relationship the lender or broker may have with members of the investing group. The overall financial strength of the investors and the potential earning capacity of the Financial General organization do not suggest that there will be significant problems with the arrangement of a viable financing package.

In this connection, we note that in the October, 1978, application a relationship between the investors group and the Bank of Credit and Commerce International (BCCI) was outlined. Members of the proposed investors group for Credit and Commerce American Holdings, N.V., and Credit and Commerce American Investment, B.V., also hold an interest in BCCI. It has now been represented to us that BCCI will have no involvement with the management and other affairs of Financial General nor will BCCI be involved in the financing arrangements, if any are required, regarding this proposal. This commitment is critical, both now and in the future, since such a relationship with another financial institution would be a significant factor in appraising this application. This is especially important in light of the overlapping ownership which will exist between Credit and Commerce American Holdings, N.V., Credit and Commerce American Investment, B.V., and BCCI. Moreover, any enhanced direct or indirect affiliation or relationship between BCCI and Financial General would take on even greater significance in light of the fact that BCCI is not subject to regulation and supervision on a consolidated basis by a single bank supervisory authority.

- (3) Our December, 1978, letter expressed concern regarding the possible need for an additional injection of equity capital into several of the banks within the Financial General system. Responding to that concern, applicants have provided for an equity capital increase of \$12 million at the consummation of the acquisition and have indicated

R 01757

- 3 -

their commitment to inject additional capital funds as needed. This injection, and adherence to the capital plan submitted by applicants, should be sufficient to preserve adequate equity capital positions in the nationally-chartered subsidiary banks.

- (4) The original application provided no financial information regarding the investors. Since the applicants are new entities formed solely to facilitate this acquisition, the financial ability of the members of the investing group was and remains extremely important. While detailed balance sheets and income statements, most of which were certified by public accountants, were provided in the confidential portion of the current application on all the private citizen and corporate investors, conventional financial data has not been made available on certain of the investors. Applicants assert that the data is unavailable due to local custom and practice. In response to the agencies' concerns, however, the applicants have provided estimates of these investors' personal net worths, which appear adequate.

Our additional request concerning information regarding the identities of proposed minority investors was adequately answered by the submission of detailed biographical information on each proposed investor associated with the group.

- (5) Analysis of the October, 1978, application did not indicate whether the investors would receive remuneration in forms other than common stock ownership, such as management fees or commissions. It has since been represented that the investors will receive nothing other than common stock in return for their equity contributions to the applicants.

Accordingly, assuming that the investors group's proposed new chief executive officer and operating plans for Financial General are satisfactory to the Board and that the Board is satisfied that the financial strength of those investors whose financial disclosures are less than conventional is satisfactory, the concerns we expressed in our December, 1978, letter have been addressed.

Very truly yours,



C. F. Muckenfuss III
Senior Deputy Comptroller for Policy

W 02768

BANK OF CREDIT AND COMMERCE INTERNATIONAL

SOCIETE ANONYME

NEW YORK REPRESENTATIVE OFFICE 375 PARK AVENUE NEW YORK NY 10152

Mr. Kemal Shoaib
Central Planning Division
BCCI London

KKE/gsl
October 14, 1982

Dear Mr. Shoaib,

RE: MONTHLY PERFORMANCE REPORT FOR THE MONTH OF SEPT 1982

Enclosed is the report of certain activities of the Representative Office for September 1982.

Notable exceptions not included in the report are as follows :-

1. Attending the IMF Conference held in Toronto.
2. Advising First American Bank in the acquisition of space for their New York Bank.
3. Arranging for the interview of Mr. Abedi with Mr. David Mizrahi of the Middle East Report for articles to appear in the World Press and Institutional Investor in October.

Yours truly,



KHUSRO KARAMAT ELLEY

Enclosures.

DC 004630

BANK OF CREDIT AND COMMERCE INTERNATIONAL

SOCIETE ANONYME

NEW YORK REPRESENTATIVE OFFICE 375 PARK AVENUE NEW YORK NY 10152

Mr. Swaleh Naqvi
C S O
BCCI London

KKE/gsl
December 13, 1982

Dear Mr. Naqvi,

Re: First American Bank New York

A meeting was held between Mr. Feghali, myself and Mr. Robert Altman in New York office on December 10th at which the following subjects were covered.

- 1) Subletting of space 350 Park Avenue.
- 2) Renovation of space and possible acquisition of furniture from Manufacturers Hanover.
- 3) Selection of Board Directors.
- 4) Recruitment of Key Staff .
- 5) Selection of Auditors.
- 6) Selections of Lawyers.
- 7) Selection of Data Processing Equipment.
- 8) Compensation package including fringe benefits.
- 9) Projections for first years operations.
- 10) Coordination with Holding Company and Share Holders.

This is for your information.

Yours sincerely,


KHUSRO KARAMAT ELLEY

*Why is he meeting
Elley or the?*

DC 004631

BANK OF CREDIT AND COMMERCE INTERNATIONAL

SOCIETE ANONYME

NEW YORK REPRESENTATIVE OFFICE 375 PARK AVENUE NEW YORK NY 10152

KKE/gsl

December 23, 1982

Mr. Swaleh Naqvi

C S O

Bank of Credit & Commerce Intl
London

Dear Mr. Naqvi,

Re: Board of Directors, First American Bank of New York

I am enclosing for you the particulars of an individual who I've known for the last four or five years and who I consider to be eminently suitable to be a member of the Board of Directors of the First American Bank of New York.

Mr. Richard M. Paget is President of a very prestigious management consulting firm. He is on the Board of a number of companies including the Washington Post. My relationship with him are fairly close and I feel we could not only use his name but also his contacts which are at very high levels. Mr. Paget is 69 years old. Recently he has also been awarded the U.S. Navy Civilian Service Metal and has agreed to become Chairman of the American Friends of the Australian National Gallery Foundation.

I would like you and Mr. Abedi to meet him on your next visit.

Yours truly,


KHUSRO KARAMAT ELLEY

Enclosures:

- for 51. pag

100 LEADENHALL STREET LONDON EC3A 3AD

DATE September 27, 1985

FROM Central Office Division

TO The Manager
BCCI
Los Angeles AgencySUBJECT MR K.K. ELLEY - HOUSE LOAN ACCOUNT

It has been agreed to transfer the House Loan Account of Mr K.K. Elley - from BCCI Luxembourg to BCCI Los Angeles Agency. You are requested to open a new House Loan Account in the above name and remit US\$292,037.51, value date 30th September 1985, to BCCI Luxembourg for the credit of account no. 11002716 (House Loan Account of Mr K.K. Elley).

The details of this loan will be forwarded to you shortly. This transaction has the approval of Mr Kemal Shoaib.

Regards,


MOHAMMAD AZMATULLAH



KHUSRO KARAMAT ELLEY
Executive Vice President

Ms. Beth

January 31, 1989

Mr. Saeed Siddiqui
General Manager
Bank of Credit & Commerce
International
501 West 6th Street
Los Angeles, CA 90014

Re: Loan Payment-February

Dear Mr. Siddiqui:

Enclosed please find my check (no. 604) in the amount of \$3,000 (Three Thousand Dollars), representing payment of interest and principal (account #'s 163, 174 and 185) on the mortgage of my house at One Scarsdale Farm Road, Scarsdale, New York.

Thank you.

Sincerely,

Khusro Karamat Elley
Khusro K. Elley

KKE:pc
Encl.

Minutes of U.S. Marketing MeetingHeld on April 24, 1985 in New York

The following attended:

1. Mr. Aijaz Afridi
2. Mr. Tariq Jamil
3. Mr. Khusro Karamat Elley
4. Mr. Amjad Awan
5. Mr. Raja Allahdad
6. Mr. Dilip Munshi
7. Mr. Shafiqur Rehman Khan
8. Mr. Sultan Mohiuddin
9. Mr. Musarrat Rizvi
10. Mr. Hasan Parvez

Mr. Louis Saubolle, Mr. S.M. Shafi and Mr. Sani Ahmed could not attend the meeting because of their other engagements.

Matters DiscussedPurpose of the Meeting

Mr. Aijaz Afridi opened the meeting and emphasized that the purpose of the meeting was to coordinate the efforts of different locations of BCC and other institutions so that the President's desire to have a totality in approach is achieved. It is a great challenge that the Group faces in the present and future U.S. operations and this is only by the joint efforts and coordination that we could be able to successfully meet this challenge.

Mr. Tariq Jamil described it as very timely meeting and he mentioned of our obligation to succeed and that it is only possible if it's done collectively. Mr. Shafiqur Rehman described this first meeting as the initiation of our efforts to move into the future of BCC in U.S.A. in a calculated and planned way with the uniformity of approach and totality in operational objectives. It is in totality in operations that success lies and an individual or an entity operating in isolation can never grow. The future objectives and greater interests are more important than the present achievements which would have been possible by our individual or isolated approaches. It is through the meetings of this nature that the information will flow, assistance will be provided and the collective view on the U.S. operations will be presented to the C.S.O. so that it may assist them in carving out the policies on growth, expansion, credits and personnel matters.

Marketing

Mr. Aijaz Afridi opened the discussion on marketing by referring to the concept of clear perception and clean instinct and defined clear perception as, "Capacity for comprehension, building a mental picture and then trying this to clear instinct - which is feeling all enveloped by the grand vision of what BCC shall be". He said that our major task in the U.S. should be to build market share. BCC had been a success in Third World and now we are embarked on establishing an equally successful business in the most competitive country in the world. He requested the members to work together to overwhelm the U.S. market and act in a unified manner and be supportive to each other.

Mr. Tariq Jamil described the U.S. market as information driven and information prone. There is a need to update our knowledge of marketing and be fully informed as to the needs of the customer. Historically we have not made calculated approach to the local indigenous market and have kept depending on the traditional sources of funds. The banking industry is undergoing tremendous changes and this is in the fold of this change that the success rests. The change always creates opportunities.

Mr. Sakhia advised that we should concentrate on increasing the customers deposit base. As our operations are new and we are trying to build up a bridge between BCC and the prospective market in South America and Caribbean, it is imperative that the customer should be introduced to BCC by every possible effort even if at times we have to attract them by offering better than market rate of interest. Once the relationship are developed the required adjustments in the composition of such deposits could be made. He mentioned that our greatest asset are the people. He suggested that we should set up a coordination desk at every center so that the information is passed on to each other on clients and business whenever there is a movement of these two factors from one place to another.

C 00000001

National Bank of Georgia

To update each member of the operations of different units it was agreed to discuss briefly the size and volume of each location's business. Mr. Tariq Jamil presented the following report on NBG: (As on 31/12/84)

Deposits	-	996 Million
Assets	-	1303 Million
Profits	-	10.4 Million
Advances	-	742 Million

Nature of Business

- A. Retail and Consumer.
- B. Mid-Size Market (Commercial) Profitable and Relationship Oriented.
- C. Trustee Business.
- D. Bankers to Government Agencies.
- E. Small to Mid-Size Corporate Sector.
- F. Wholesale banking division established to address large corporate sector.

To increase the profitability by growth the following actions have been taken:

- A. Expansion - obtaining charter.
- B. Added more people to marketing.
- C. Decentralizing marketing.
- D. Expenses control.

He mentioned that consumer business is more profitable than commercial business.

BCC Canada

Mr. Allahdad mentioned that it is difficult to operate on the same lines as NBG has been doing because of the difference in operational situation and credit policies for BCC Canada and that of NBG. BCC Canada cannot enter into:

- A. Consumer Loans
- B. Commercial Loans
- C. Credit Card Operations

He was not also happy with the capability of BCC computer facilities to meet the needs of the consumer in the local market place. He mentioned that till 1981, BCC had no acceptability in the local market and the situation has changed totally now and their CD's have an excellent listing. Their customer deposits are around \$200 million, out of which 55% are corporate funds and 45% from the retail sector. The loan portfolio is around \$90 million. Mr. Tariq Jamil discussed with him the possibilities of customer CD's for smaller amounts on the lines of NSC and requested Mr. Raja to explore the probability in the future. Mr. Allahdad mentioned that the reason of low profitability is lesser thrust in the consumer market as compared to more resourceful banks and mainly depending on corporate sector that offers very thin margins on the deals and deposits. In the interest of profitability the capitalisation costs have been kept very low that are negating the efforts to expand.

New York Agency

Mr. Rehman apprised the members of the present situation of the Agency and the process through which it has passed during the last one year. Because of its inability to open customer deposit accounts much could not be done in this sector and most of the time was consumed in setting up the office and systems so that it could be ready to accommodate all business that has to come.

In march, 1985 after the passage of New York State Omnibus Banking Bill the Agency has been authorized to accept all kinds of non-resident/non U.S. citizen deposits of all denominations. The initial work has been completed on the printing of account opening forms etc..., and after the concentrated marketing efforts positive results as expected. On the business side there has been an increase at an accelerated pace and the take off situation is very near. The New York Agency is fully automated and is member of S.W.I.F.T. and associate member of New York Clearing House. It has the operational capability to handle all kinds and volume of international business.

Miami

Mr. Sakhia informed that the Miami Agency stands in third position among the foreign agencies in Miami. The Caribbean Region has contributed 13.5 % to the growth of total deposits to the Group during 1984. BCC has all the acceptance of the local financial community. Mr. Sakhia suggested that they should have a joint approach in handling the U.S. business and that a consolidated and unified presentation should be made to C.S.O. to understand our operational problems and that a coordination team should be formed to collect information on the movement of the existing clients and the prospective clients.

Latin American Region

Mr. Musarrat Rizvi informed that their region has generated 200 Million dollars of deposits out of which 80 Million dollars has been placed in other BCC units. The projected figure for 1985 is 800 Million dollars out of which 150 Million are expected to be placed with other offices of BCC during 1985. Their operation in Peru and Argentina will start this year and it is expected that the Latin American Region will give a profit of 10 Million in 1985. He assured that every possible effort will be done to assist all the centers in their growth.

San Francisco

Because of the nature of operations San Francisco Agency had mainly been catering for the Chinese businesses. Mr. Mohiuddin recently traveled in the Middle East and was successful in generating substantial amounts of deposits that has been placed with the Agency. He was confident that all efforts will continue to increase the size and effectiveness of their office.

Los Angeles

Mr. Munshi informed that his market is predominantly the ethnic community for retail deposits. Like San Francisco they have to depend on deposits from Hong Kong, Canada and Middle East. He had poor response from most American companies that mainly deal with other U.S. Banks and he consequently concentrated on inter-bank money market. He was of the opinion that in the interest of profitability the loan portfolio is to be increased. In order to have an entry in High network Individuals sector, they are planning to open an office in Beverlyhills very shortly.

- 6 -

First American Bank
of New York

Mr. Elley gave a background of the history of FAB Group, especially New York, describing the role of the investors and how the emphasis was on developing New York. He described that in addition to providing a range of full services from New York, the main focus would be on creating a powerful International Division and very strong Money Market and F.X. Operations, since these are two areas which had not been available in the FAB Group. He reported that the Bank in New York was fully operational and offered in the International Area, Correspondent Banking Services, Trade Finance and Private Banking. Additionally, they were doing Domestic Banking through a network of 44 Branches, which were engaged in all the retail services from Mortgages to Auto Loans. A corporate Division looked after the Middle Market and the larger companies, while the Treasury area was now very active in Money Market and Foreign Exchange Markets. FABNY is also a member of CHIPS and SWIFT, and had started handling the accounts of a number of BCC Branches.

Partly as a result of a number of acquisitions made in the previous year, the Bank has now achieved a size of \$800 million in assets and has a capital of \$100 million. It was expected that by the end of 1985, Assets would reach \$1 billion in New York.

They were presently facing the following problems:

1. New York City overheads were high and the dilemma was how to be in profit from year one.
2. Because of its acquisition programme, the Bank was currently a combination of 3 Banks, and a lot of Management time was being spent to form them into one Bank.
3. Sophisticated automation and systems had been put in place. This initially created teething problems, which are now almost resolved, but they had nevertheless taken up considerable time.
4. They were having to work very hard in creating a joint personality of the Senior Management.

the question of Mr. Jamil on the application of funds Mr. Elley explained different outlets and also agreed with Mr. Jamil that he would do a research on the processing of Cash Letters of Savings and Loans Associations, Thrifts and Credit Unions that has been ignored by money center banks.

Washington Representative Office

Mr. Amjad Awan was requested to provide the timely information on domestic and international deals. Mr. Jamil described Washington as a seat of decision making on major policies on trade and banking business. Mr. Awan assured that they are gearing up to meet the increasing requirements and expectations of assistance of BCC Group.

Conclusion

Mr. Elley concluded that in America we are sitting on 7 Billion dollar assets and this is just the beginning. There is much to do and inspite of diversity of operations as different agencies and banks we have to find a common denominator. The U.S. Team should play an imporant role in identifying the products in the market and also to improve the resources and also set up an overall direction.

Mr. Sakhia expressed that it is a "uniques experience" the U.S. operations have been started by a team of younger and energetic individuals. He suggested that these meetings should be a continuing process and while we meet next time we should come up with recommendations and proposals on what we could do for each other.

It was agreed by consensus that instead of isolated approaches to C.S.O. to present our problems a joint approach should be made that would give a clear prospective on the needs and requirements in the U.S. market..

The participants unanimously agreed to nominate Mr. Shafiqur Rehman Khan as coordinator of these meetings. The next venue of the meeting was decided to be in Miami on June 1, and specific items for the Agenda to be advised to Mr. Shafiqur Rehman for circulation.



PLEASE TRANSMIT THE FOLLOWING

TELEX MESSAGE

1976.38 1ST/VN

2247
76

MESSAGE No. MIA

TELEX No.

DATE 5/4/86 TIME

TEST No.

To: MR. ROBERT ALTMAN
PRESIDENT
FIRST AMERICAN CORPORATION
WASHINGTON, D.C.

AMOUNT

VALUE

FROM: A.R. SAKHIA

IT IS MY PLEASURE TO INFORM YOU THAT BCC BOCA RATON
HAS ARRANGED FOR FIRST AMERICAN NEW YORK A CUSTOMER
DEPOSIT OF US\$ 4,200,000 FOR 6 MONTHS AT SLIGHTLY
BELOW MARKET RATES. THIS IS IN ADDITION TO DEPOSIT
OF ONE MILLION ARRANGED EARLIER.

WE HOPE WE WILL HAVE MANY MORE FRUITFUL RELATIONSHIPS.

REGARDS,

A.R. SAKHIA

CC: KENAL

FROM
BANCRECOM MIAMI

NOT TO BE TRANSMITTED

Authorized Signature

Authorized Signature

Ded:

CHARGES RECOVERED FROM CLIENT YES/NO
DEBIT

C 000185



Third meeting of the Americas Coordinating Committee of Bank of Credit and Commerce International was held at New York on July 22, 1985. Following were present:

S. M. SHAFI	-	CHAIRMAN	T. JAMIL
AIJAZ AFRIDI			SHAFIUR RAHMAN
AMJAD AWAN			ABDUR R. SAKHIA
FEROZ DEAN	-	(DIR.)	ANIS ZULEVI

Mr. Sani Ahmad, Mr. K. Kelley, Mr. A. D. Raja, Mr. Soubole could not attend and were excused.

It was discussed that if permanent members could not attend an alternate member must attend. Meetings of this committee are going to play an important role and this committee is in the long run will be the managing Committee of Americas.

Minutes of the last meeting were discussed. Typing errors pointed out to be corrected and minutes were adopted.

Points arising from the previous meeting were raised.

1. Names of Officers handling Latin America in First American Bank to be given by Mr. Afridi to Mr. Shafi.
2. All business passed on by BCC to FABNY may please be reported to Mr. Afridi.
3. Asif Mujtalia was named co-ordinator of business with N.B.G. Mr. M. H. Zubairi to be co-ordinator in Banco Mercantil.
4. It was suggested that co-ordinators should meet soon.



- 2 -

5. Credits-Chairman pointed out that no Comprehensive proposals were received by the Secretary from various members. It was requested that proposal may please be received by 1st week of August.
6. Computer-Chairman confirmed that all points raised in the minutes about computerization were indeed discussed in the previous meeting. It was also decided in that meeting to receive suggestions from all units as to study what other banks were doing, what services various units would like to offer and what computer facilities will be required to provide this service. It was discussed that market is changing. Banks come out with different products everytime. We can not compete without support of the Computer Division nor can we wait. It is a dilemma. We should bring this to the notice of London.

It was agreed that all units please communicate with this committee to communicate with C.S.O.

RETURNS

No action has so far been taken and number of returns continues to increase. List of returns to be compiled and sent to C.S.O. to study possible duplication.

**APPLICATION FOR GREEN CARDS**

Mr. Shoaib's letter was discussed. It was felt that no hard and fast guideline could be developed, however following points must be observed.

1. It will not be automatic right of the staff.
2. Only International staff will be considered.
3. Cost will be borne by officer.
4. Application would be considered in the 3rd year of posting in the U.S.
5. It will not mean that officers services are not transferable from the U.S.
6. Sponsoring such a request will not make obtaining of Work Permit difficult.
7. In all cases it will be done upon recommendation of Regional General Manager.

VISIT OF PRESIDENT

Impending visit of Agha Saheb was discussed, it was agreed that List of Participants will be as per Agha Saheb's approval. It was felt that it may be suggested to Agha Saheb to include the following:

1. All members of all R. Mc's.
2. Members of this co-ordinating Committee and all members.
3. All reference desk officers.



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- 4 -

It was also suggested by members from Washington that all units contacting official agencies in Washington may inform or enclose copy to Washington Representative Office.

It was discussed that the various dealing rooms within this area may try to increase business with each other and help support each other. It was agreed to have meetings of Dealers in Americas soon.

Meeting ended with a vote of Thanks to the Chairman and to Mr. S. Rahman for hosting the meeting.

A.R. Sakhia
SECRETARY
AMERICAS COORDINATING COMMITTEE

S.M. Shafi
CHAIRMAN
AMERICAS COORDINATING COMMITTEE

C 0000144

PRESIDENT'S MEETING WITH FAR EAST REGION
SENIOR EXECUTIVES IN HONGKONG 23.4.87 (4:15 P.M.)

The fact that I am sitting before you addressing you itself indicates the importance of this phenomena.

I have requested some of the other colleagues who are not directly concerned with this subject, to join this meeting, with a view to letting them know what is the importance of this programme - the process of this phenomena.

If I was to describe or convey to you (if I am capable of doing that) the importance of the meaning of this, new concept in the Bank, - the effort that we are launching - I can say it in a few simple words: -

For me this is the event in importance only to the event that happened in September 1972, when this Bank came into being. If I were to be honest with you I think it's not second to that but it is just as important as that.

This Bank has become a significant banking institution in the committee of banks internationally. You are now with the First American Group of banks, at the moment, over \$ 27 billion in assets and we will be \$ 30 billion by the end of this year. We are now being recognised in the brotherhood of international banks as an important factor to the banking system of the world/ This is not being said by me but I'm repeating the words of many senior bankers, regulators and auditing firms.

It was a vision - in 1972, come true in 1987.

You know our definition of vision !

Vision is not a vision unless it has a built-up power for translating itself, - otherwise it is imagination - it is a fantasy.

A new vision is (now) born of no less importance and this is EMP.

President's
meeting with
Far East
Region

23 April 87

RECEIVED
APR 23 1987
FEDERAL RESERVE BOARD
COMPTROLLER OF THE CURRENCY

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

3447

11A

ALTMAN DEPOSITION
6/23/88
VIRGINIA BANKSHARES CASE¹⁶

1 MR. MERNICK: And I take it you are not
2 asserting any privilege?

3 MR. CAWLEY: I am directing that -- it has
4 gone beyond the scope of any discoverable evidence that
5 I can possibly conceive of, and it is just trying to
6 satisfy some idle curiosity, which he doesn't need to
7 answer.

8 MR. STUMP: On behalf of the directors, I
9 associate myself with the objection. I of course do not
10 have power to direct Mr. Altman one way or another, but
11 I certainly object to this as intended to insert heat
12 rather than light into the case.

13 BY MR. MERNICK: (Resuming)

14 Q. Are you going to adhere to your counsel's
15 instructions not to answer that question?

16 A. I am.

17 Q. Mr. Altman, does Sheik Kamal Adham own more
18 than 50 percent of the stock of CCAH?

19 (Witness confers with counsel.)

20 MR. CAWLEY: I'm also going to direct him not
21 to answer what percentage of stock Mr. Adham owns in
22 CCAH.

1 BY MR. MERNICK: (Resuming)

2 Q. Mr. Altman, do you have occasion -- strike
3 that.

4 May I safely assume for the balance of this
5 deposition that if your counsel instructs you not to
6 answer a question you in fact will adhere to that
7 instruction and will not answer the question?

8 A. That is a valid assumption.

9 Q. Mr. Altman, are there occasions on which you
10 communicate with one or more of the investors of CCAH?

11 A. Yes.

12 Q. Is there any particular investor with whom you
13 communicate on a regular basis, as opposed to the other
14 investors?

15 A. No.

16 Q. Do you communicate with all of them with equal
17 frequency?

18 A. No.

19 Q. Is there an investor with whom you communicate
20 with greater frequency than with the others?

21 A. There is no particular pattern to it.

22 Sometimes some of the investors call me or at times I

1 will contact one of them. At times I will contact all
2 of them. ((

3 Q. Is it your testimony, then, that you on those
4 occasions when you contact one, as opposed to all, of
5 them, contact them with equal frequency, one as opposed
6 to the other?

7 A. No.

8 Q. Is there one whom you contact more regularly
9 than the others or more frequently than the others?

10 A. Well, I would be speculating because I don't
11 know the number of times I have talked to any particular
12 investor. I believe over the years I would have talked
13 to Sheik Kamal Adham more frequently than other
14 investors, but it is just a guess.

15 Q. And you indicated a moment ago that there are
16 investors who contact you or initiate contact with you?

17 A. Yes.

18 Q. Is there an individual investor who initiates
19 contact with you more frequently than the other
20 individual investors do?

21 A. I don't think there is any particular
22 pattern.



FIRST AMERICAN BANKSHARES, INC.

CLARK M. CLIFFORD
Chairman of the Board

October 16, 1990

Mr. Faisal Saud al Fulaij
London, England

Dear Mr. Fulaij:

In accordance with our letter dated August 8, 1990, this is to confirm that a meeting with the shareholders of Credit and Commerce American Holdings, N.V. to discuss important developments at First American Bankshares in the United States will be held on Tuesday, October 23, 1990, at 2:00 p.m. at The Claridge Hotel, Brook Street, Mayfair, London, England W1.

Each shareholder is cordially invited to attend the meeting or designate a representative to attend on his behalf. If you are unable to attend and do not wish to send a representative, we would be pleased to provide you with a written report regarding the discussions at the meeting. Please check with the manager at the Claridge Hotel on October 23 to obtain the room location of our meeting.

For your information, we also enclose a copy of our letter dated October 9, 1990 to H.E. Sheikh Kamal Adham, a principal shareholder, addressing the critically important capital needs of the Company at this time.

We hope you or a representative will be able to attend this important meeting on October 23. We will be available to continue our discussion on October 24 as needed. For planning purposes, we would appreciate it if you would notify us this week by telefax (202/659-0065) if you plan to attend.

Cordially yours,

Clark M. Clifford
Clark M. Clifford

Enclosure

Private Department
for H.H. SHAIKH ZAIED BIN SULTAN AL NAHYAN
P. O. Box 77 - Abu Dhabi U. A. E.

رسم المراسلة رسم



الدائرة الخاصة
صاحب السمو الشيخ زايد بن سلطان آل نهيان
م. ب. : ٧٧ - أبوظبي

2

MEMORANDUM

Date : 27 October 1990
To : H.E. The Chairman
From : Atique Azad
Subject : First American Bankshares

As instructed by Your Excellency, I attended the shareholders meeting of First American in London on 23/24 October 1990.

The meeting was attended by Mr. Clark M. Clifford and Mr. Robert Altman from First American. The shareholders or their representatives present were H.E. Kamal Adham, Mr. Gauhari, Mr. Faisal Al - Futail and myself.

The meeting was opened by Mr. Clifford who gave a background of First American and its progress to - date.

It was pointed out by Mr. Clifford that the contact maintained by First American and its shareholders were through Mr. Aga Hassan Abedi, who acted as a liaison between both parties and this was the first time that an attempt was made to contact the shareholders directly.

The main focus of the meeting was on the issue of certain requirement of First American, which are as follows:

- 1) An immediate requirement of a bridge loan of U.S.\$30 myn at market rates.
- 2) An offering of U.S.\$ 125 myn 9 % cumulative perpetual preferred stock.

1) The problem facing the bank which is of a very immediate and urgent nature is the requirement of U.S. \$ 30 myn. The Fed has been reviewing the loan portfolio of First American and have asked the bank to provide against some of their non

Page 1

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FD 00635

Private Department

H.H. SHAHIN ZAIED BIN SULTAN AL NAWYAN

D. O. Box 77 - Abu Dhabi U. A. E.



الدائرة الخاصة

مكتب سمو الشيخ زايد بن سلطان آل نهيان

ص.ب : ٧٧ - أبوظبي

-performing loans . The majority of these loans are in the real estate / real estate related sector of the market . As a result of providing for these loans , First American is in danger of violating net worth covenants in loan agreements that it has signed . Violation of these loan covenants can result in a call for immediate payment of \$ 105 myn from the lenders .

The First American officers have stated that it is of vital importance that this requirement is met by the 31st Oct. 1990 .

I , including the other shareholders present pointed out that the period of notice provided was not sufficient to even look into this matter in depth , leave aside providing the funds that they are asking for . The bank officers pointed out that they themselves were not made aware of this till very recently and that they have come to us as soon as they had reviewed the situation themselves .

Mr. Clifford explained how the bank had received offers for purchase of the bank at over \$ 1 Byn and feels that over time the value will well exceed that . At the present time however , due to the slowdown in the economy in general and especially in the banking sector such a move would yield no results .

It has to be borne in mind here that what is at stake here is a substantial investment in the part of the shareholders . The other more significant and important fact is that one cannot afford to get on the wrong side of the regulatory authorities in the United States . The banking industry in general is undergoing a microscopic review due to the S & L situation and the regulatory authorities are bearing down on the banks as a matter of policy .

If we were to provide the funds that are required , it should be in a pro rata basis including all the other shareholders . In the absence of an updated shareholders list alongwith percentage holding of each I am unable to state the impact this will have on the shareholders .

2)The other point that was raised was the issuance of \$ 125 of 9 % cumulative perpetual preferred stock . Such shares of preferred stock will be convertible into shares of the Company's common stock at any time at 75 % of the book value of the Company's common shares on September 30 , 1990 .

The proceeds of the offering will be used to repay the \$30 myn short-term loan mentioned above . In addition to this , the offering would provide additional capital funding to First American and it's subsidiary banks .

A detailed explanation was provided as to the Federal Reserve and other regulatory

Page2

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FD . 00636

Private Department

H.H. SHAIKH ZAIED BIN SULTAN AL NAHYAN.

P. O. Box 77 - Abu Dhabi U. A. E.



الدائرة الخاصة

لمصاحب السمو الشيخ زايد بن سلطان آل نهيان

ص.ب : ٧٧ - أبوظبي

authorities emphasis on the adequacy of bank and bank holding company capital ratios .

A set of alternatives were discussed which included the following :

- Maintain status quo.
- Grow in all existing markets through acquisitions .
- Sell the company .
- Restructure and focus on core franchises .

The above alternatives were discussed in details including the merits and demerits of each . I shall not go into the details as a handout has been provided covering the same .

The matter of the \$ 30 myn short term loan remains . I told the bank executives that I shall brief the relevant authorities on this and get back to them . I was also approached by the other shareholders present and requested to come up with some solution . To this end Mr. Gauhar who I understand also represents the interests of H.E. Kamel Adham, has come to Abu Dhabi to talk to the shareholders or to the appropriate person who will decide on this matter to come to an agreement which would satisfy all the shareholders .

In conclusion I would like to state that it is of utmost importance that we deal with this matter very carefully and urgently as the U S regulatory authorities will not be flexible if any problems were to arise . The bank itself is unique and would be very profitable to it's shareholders but more involvement will be required .

I request Your Excellency to look into this matter and await further instructions .

Respectfully ,

ATIQUE AZAD.

المسترة الخاصة لسمو رئيس الدولة
مكتب رئيس الدائرة
تاريخ الوثيقة: 28/1/1990 رقم الوارد: 1190
ل.ر. 14-00/1

Page 3

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FD-00337



BCC ANNUAL CONFERENCE VIENNA 1984

(26TH - 27TH FEBRUARY)

LIST OF PARTICIPANTS

HILTON/
INTERCO:

BOARD OF DIRECTORS

ABEDI, Agha Hasan	-	President	-
AL-MAZRUI, Shanim Faris	-	Director	I
CHANDRA, P.C.	-	Director	I
VAN QENEN, J.D.	-	Director	I

GUESTS

Attock Oil

AMINUDDIN, Usman	I
BAQI, M.A.	I
CHAUDHRI, Amjad	I
KHAN, Afzal	I
LODHI, T.A.T.	I
SALIM, M.	I

Auditors

FEAR, Richard	-	Price Waterhouse	I
HARRIS, R.	-	Price Waterhouse	I
HAY, K.	-	Ernst & Whinney	I
HEATH, R.	-	Ernst & Whinney	I
STONE, T.	-	Ernst & Whinney	I

BCC Foundation

ALI, Abid	I
SAEED, Afzal	I

Credit & Commerce Insurance

BHIMJEE, R.	I
HASAN, Nawab	I
KHAN, Aziz	I
WALAJAHI, S.A.	I

Cromwell Hospital

KHAN, Amanullah (Dr)	I
NIZAMI, Asghar (Dr)	I

Health

HAMEED, K. (Dr) 1

International Travel Corporation

ANWER, Saghir 1

Khalij Commercial Bank

RAZA, Ahmed 1

National Bank of Georgia

BATASTINI, W.W. 1
 CARLSON, R.P.M. 1
 CATER, Vince 1
 FREEMAN, Guy 1
 HARREL, Richard 1
 JAMIL, Tariq 1
 KENEMAN, Richard C. 1
 MUJTABA, Asif 1
 PLOMGREN, Theodor 1
 RAZA, Mehdi 1
 WALKER, James 1

Special Invitees

AFRIDI, Aijaz 1
 AHMED, M.M. 1
 AL TAYER, Obaid Humaid 1
 ALI, Majid 1
 ALTMANN, R. 1
 ELLEY, K.K. 1
 FREEMANTLE, Anthony 1
 KHAN, Ikramullah 1
 PROF A MONEIM EL-MELIGI 1
 RICHTER, Bruno 1
 STEVENS, R. 1

Third World Foundation

GAUHAR, Altaf 1
 GAUHAR, Humayun 1

AFFILIATES

Ahmed Bin Oboud - Jeddah

HASAN, Asrar 1

BCC Emirates - Abu Dhabi

ALLARAKHIA, Mahmood S. 1
 ASIF, Kh. Mohammed
 GHANI, S. Saeedul

BCC Emirates - Abu Dhabi (cont'd)

[illegible]

BCCI - Lebanon

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.BCCI (Nigeria) Ltd.

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BCP - Switzerland

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Ital Finance - Italy

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LATIN AMERICA

Regional Office

AKBAR, S.M.	I
HASAN, Bande	I
RIZVI, S.M.H.	I
SHAFI, S.M.	I

Brazil

PRUD'HOMME, Eric	I
------------------	---

Colombia

BILGRAMI, Akbar	I
ZARATE, Eduardo	I

Grand Cayman

HASSAN, Sharaful	I
------------------	---

Uruguay

SHABBIR, S.A.	I
---------------	---

Venezuela

ANEZ, Luis E. (Dr)	I
--------------------	---

NEW YORK

ALAM, Khurshid	I
HELMY, Abol	I
JHALA, K.G.S.	I
KHAN, Shafiqur Rehman	I
LODHI, Amer	I
SHARIH, Khalid	I

WASHINGTON

AHMED, Sani	I
→ CALVO, A. (Dr)	I

WESTERN AMERICA & PACIFIC

Regional Office

O'BRIEN, Patrick	I
SAUBOLLE, Louis E.	I

San Francisco BCC (HK) Ltd

MOHIUDDIN, Sultan	
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ANNUAL
CONFERENCE
LUXEMBOURG
1986

MAY 2ND & 3RD 1986

LIST OF PARTICIPANTS

57
BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

12

BOARD OF DIRECTORS

ABEDI, Agha Hasan
AL-MAZRUI, Ghanim Faris
HARTMANN, Dr. Alfred
KANDIAH, Peter
LAMARCHE, Y.C.
TWITCHIN, P.C.
VAN OENEN, J.D.

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ADVISORS

PIRBHAI, M.R.
YUNUS, Dr. M.

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AUDITORS

COWAN, Christopher
HARRIS, Richard
HAY, Ken
STONE, T.

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GUESTS

AFRIDI, Aijaz
ALTMAN, Robert
BATISTINI, W.W.
CARLSON, R.P.M.
ELLEY, K.K.

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CONFIDENTIAL

59

100 LEADENHALL STREET LONDON EC3A 3AD

DATE 23 December 1986

FROM Saleem Malik
CSO Legal Division

TO Mr Swaleh Naqvi

SUBJECT \$140 MILLION LOAN TO DR PHARAON
OPTION AGREEMENT & RELATED DOCUMENTS

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

AD 185

I visited Washington from 18-20 December and had meetings with Mr Altman, Mr Leshner and lawyers from the law firm of Millbank Tweed (who are advising Mr Altman on New York Laws).

The Option Agreement and Pledge Agreement were signed on 18 December 1986 and CCAH remitted the Option Price.

After consultation with Mr Altman and Millbank Tweed, they advised that the Loan Agreement and Pledge Agreement was signed and dated in mid-January or early February 1987, as by then a reasonable period will have elapsed since signing the Option and the "integrated transaction" argument would not be successful. Accordingly, we hope to return to New York next year and have the Loan and Pledge Agreements executed, tentatively a closing date of January 22 1987 has been set.

The executed Option and Pledge Agreements should now be forwarded to Dr. Pharaon; please advise how you wish this to be done, personally or by courier, or should we wait until the Loan and Pledge have been executed, when all the agreements can be handed over at one time?

As regards BCCI SA London holding the Pledged Shares, after long discussion, Millbank Tweed advised that a supplement to the Pledge Agreements will not be needed. BCCI SA NY Agency can simply request London to hold the shares to their order with notice to CCAH of such fact. However, Millbank Tweed are still of the view that the Shares may be better protected in New York; they will advise us if they can provide us conclusive opinion to this effect. For the moment, they have no major legal objections to London holding the Pledge Shares.

Additionally, Mr Altman has executed a Subordination Agreement which BCCI (O) Ltd has yet to execute. Mr Altman, has requested that the Subordination should be executed as a matter of urgency. (A photocopy is enclosed).

I should be happy to discuss any of the above points at your convenience.

Respectful regards,

Saleem Malik

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

AD 379

PLEDGE AGREEMENT

Dated as of December 18, 1986

from

DR. GHAITH R. PHARAON,
INTEREDec (GEORGIA) LIMITED,
INTEREDec (GEORGIA) N.V.,
and
NBG FINANCIAL CORPORATION

to

BANK OF CREDIT AND COMMERCE INTERNATIONAL, SED.
(NEW YORK AGENCY)

as agent for

CREDIT AND COMMERCE AMERICAN HOLDINGS, N.V.

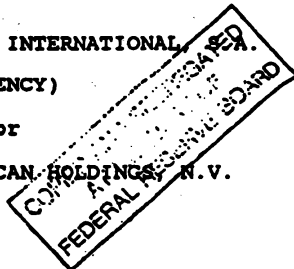
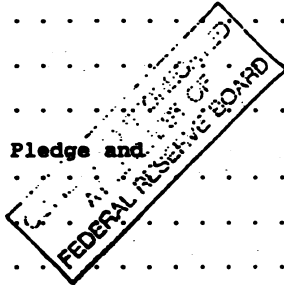


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THIS AGREEMENT dated as of December 8, 1986 from DR. GHAITH R. PHARAON, a citizen and resident of the Kingdom of Saudi Arabia ("Dr. Pharaon"), INTEREDEC (GEORGIA) LIMITED ("Interdec (Ltd.)"), a Bahamas corporation, INTEREDEC (GEORGIA) N.V. ("Interdec (N.V.)"), a Netherlands Antilles corporation, and NBG Financial Corporation ("Company"), a Georgia corporation, to BANK OF CREDIT AND COMMERCE INTERNATIONAL, S.A. (NEW YORK AGENCY) (the "Pledge Agent"), acting on behalf of CREDIT AND COMMERCE AMERICAN HOLDINGS, N.V. ("CCAH").

Dr. Pharaon and Interdec (N.V.) have entered into an Option Agreement dated as of December 8, 1986 (as in effect at any time, the "Option Agreement") with CCAH pursuant to which CCAH has been granted an option (the "Option") to acquire all the outstanding common stock of Company, a registered bank holding company under the Bank Holding Company Act of 1956. In consideration thereof and in order to induce CCAH to enter the Option Agreement and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby agree for the benefit of CCAH as follows:

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SECTION 1. Definitions.

Terms defined in the Option Agreement and not otherwise defined herein shall have, as used herein, the respective meanings provided for therein. The following additional terms, as used herein, shall have the following respective meanings:

"Collateral" means the shares and all other property of any nature stated to be assigned as collateral security under Section 2.A herein.

"Default" means any Event of Default, or any event or condition which would constitute an Event of Default without giving effect to any provisions for the giving of notice or lapse of time.

"Event of Default" means any one or more of the following events or conditions:

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RAA
Bus
KQ

(a) Dr. Pharaon and Interdec (N.V.) shall fail to repay the Option Fee on the Expiration Date, unless Notice of Exercise has previously been given, or to make payment of the Cancellation Price on the Cancellation Date or the Termination Date, as the case may be, or shall default in the payment or performance when due of any other Obligations;

(b) Any representation, warranty or certification made in this Agreement, the Option Agreement or in any document furnished in connection herewith or therewith by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall prove to have been false or misleading as of the time made or furnished in any materially adverse respect;

(c) Any of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian or trustee or the liquidation of Interdec (Ltd.), Interdec (N.V.) or Company or of all or a substantial part of the property of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be; (ii) make a general assignment for the benefit of the creditors of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be; (iii) commence a voluntary case under the U.S. Bankruptcy Code (as now or hereafter in effect); (iv) file a petition, make application or otherwise commence proceedings seeking to take advantage of any other law of any jurisdiction relating to bankruptcy, insolvency, reorganization, suspension of payments, moratorium, winding-up, or composition or readjustment of debts; (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition or application filed against Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be, in an involuntary case or proceeding under the U.S. Bankruptcy Code or any other law of any jurisdiction relating to bankruptcy, insolvency, reorganization, suspension of payments, moratorium, winding-up, or composition or readjustment of debts; or (vi) take any action for the purpose of effecting any of the foregoing;

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(d) A proceeding or case shall be commenced, without the application or consent of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, in any court of competent jurisdiction, seeking (i) liquidation, reorganization, dissolution or winding-up, or the composition or readjustment of debts of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be; (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of Interdec (Ltd.), Interdec (N.V.) or Company or of all or any substantial part of any of the assets of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be; or (iii) similar relief in respect of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company under any law of any jurisdiction relating to bankruptcy, insolvency, reorganization, suspension of payments, moratorium, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of thirty (30) days; or an order for relief against Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall be entered in an involuntary case under the U.S. Bankruptcy Code;

(e) Any shares of the capital stock of National Bank of Georgia ("Bank") (a national banking association organized under United States federal laws), Company, Interdec (N.V.) or Interdec (Ltd.) shall at any time become subject to any lien or be sold, assigned or otherwise transferred (or become subject to any agreement of sale, assignment or transfer), except (i) pursuant to this Pledge Agreement, (ii) in the case of the shares of Company, pursuant to the Option, (iii) in the case of Bank shares, with respect to the sale of directors' qualifying shares, or (iv) with the prior written consent of CCAH;

(f) Any of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall default in the performance or observance of any covenant, condition or undertaking contained in this Pledge Agreement or the Option Agreement; or

Handwritten notes:
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(g) Any of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall default in the payment when due, by acceleration or otherwise, of any amount in respect of any indebtedness or obligation secured, directly or indirectly, by the Collateral, and such default shall continue beyond the applicable grace period, if any, specified in the note, agreement or other instrument relating to such debt, or any other event shall occur under any note, agreement or other instrument by which any such debt is evidenced or under which any such obligation is created which entitles the holder of such debt to cause such debt to become due prior to its stated maturity or payment date, and such default shall not be cured within the applicable grace period, if any, specified in such note, agreement or other instrument.

"Obligations" means any and all obligations (now existing or hereafter arising) of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company under this Agreement or under the Option Agreement.

SECTION 2. Collateral.

A. Pledge. As collateral security for the full and punctual payment and performance when due (whether at stated maturity, by acceleration or otherwise) of the Obligations, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby pledge, assign, hypothecate, transfer and deliver to and with the Pledge Agent and for the benefit of CCAH, and Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company grant to the Pledge Agent for the benefit of CCAH, a first lien and a prior perfected security interest in, (i) all shares of the capital stock of Interdec (Ltd.), Interdec (N.V.), Company and Bank, respectively, whether now owned or hereafter acquired, directly or indirectly, and (ii) any cash dividends or other cash payments, additional shares or securities or other property at any time receivable or otherwise distributable in respect of, in exchange for, or in substitution of, any and all such capital stock, together with all of the proceeds of any thereof.

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B. Delivery. The certificates evidencing the shares pledged under Section 2.A herein shall be delivered to the Pledge Agent, duly endorsed in blank or with executed stock powers in blank annexed to each certificate. If any shares, securities, or other property required to be pledged under Section 2.A herein are hereafter received by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, such party agrees forthwith to transfer and deliver to the Pledge Agent such shares, securities or other property so received (with appropriate endorsements, if any, and together with the certificates for any such shares and securities duly endorsed in blank), all of which thereafter shall be held by the Pledge Agent, pursuant to the terms of this Agreement, as part of the Collateral. If any Event of Default shall occur and be continuing, any cash payments received by Dr. Pharaon, Interdec (Ltd.) or Interdec (N.V.) in respect of, in exchange for or in substitution of all or any portion of the shares pledged hereunder shall be received in trust for the benefit of CCAH, shall be segregated from other funds of Dr. Pharaon, Interdec (Ltd.) or Interdec (N.V.), as the case may be, and shall, without the necessity of any demand by the Pledge Agent, be paid over to the Pledge Agent and thereafter shall be held by the Pledge Agent pursuant to the terms of this Agreement in a separate cash collateral account.

C. All Shares to be Pledged. Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company will cause the shares pledged hereunder to constitute at all times not less than 100% of the total number of shares then outstanding (including treasury shares but excluding directors' qualifying shares) of the capital stock of Interdec (Ltd.), Interdec (N.V.), Company and Bank, and will not permit Interdec (Ltd.), Interdec (N.V.), Company or Bank to issue or have outstanding any shares of any other class of its capital stock or to have outstanding any subscription warrants, rights or options to acquire any shares of any class of its capital stock, other than the Option, or as consented to in writing by CCAH.

D. Registration In Pledge Agent's Name, Etc. The Pledge Agent shall have the right (in its sole discretion) (i) to hold any certificates representing the Collateral in its own name, or in the name of Dr. Pharaon, Interdec

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(Ltd.), Interdec (N.V.) or Company endorsed or assigned in blank or in favor of the Pledge Agent, (ii) to have the Collateral or any part thereof registered in the name of the Pledge Agent or in the name or names of the Pledge Agent's nominees, or (iii) to exchange, at any time and from time to time, the certificates delivered hereby for certificates for smaller or larger denominations for any purpose consistent with the Pledge Agent's performance under this Agreement.

SECTION 3. Representations and Warranties. Each of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company represents and warrants, jointly and severally, to CCAH as follows:

(i) Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company are and will be the legal and equitable owner of the shares of stock of Interdec (Ltd.), Interdec (N.V.), Company and Bank, respectively, pledged hereunder and will not make any assignment, pledge, mortgage, hypothecation or transfer of any thereof or of any part thereof, except the pledge provided for herein, the Option or as consented to in writing by CCAH.

(ii) All such shares are and will be duly authorized, validly issued, fully paid and nonassessable.

(iii) Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company (as the case may be) will own all such shares free and clear of all liens, security interests and encumbrances of any nature whatsoever ("liens"), except the pledge provided for herein, the Option and as consented to in writing by CCAH.

(iv) Except for directors' qualifying shares, Company directly owns all of the shares of capital stock of Bank, which constitutes the entire outstanding stock of every class and kind of Bank, there being outstanding no options, warrants, subscription agreements, convertible instruments or other rights to acquire any shares of any class of said capital stock.

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(v) The execution, delivery and performance by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company of this Pledge Agreement have been duly authorized and do not and will not (a) require any consent or approval (other than such consents and approvals that have been obtained and remain in full force and effect), (b) violate any provision of the organic documents of Interdec (Ltd.), Interdec (N.V.), Company or Bank, or any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, (c) result in a breach of or constitute a default under such organic documents, or any indenture or loan or credit agreement or other material agreement, lease or instrument to which Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company is a party or by which he or it or his or its properties may be bound or affected, or (d) result in, or require, the creation or imposition of any Lien (other than the pledge provided for herein), upon or with respect to any of the property now owned or hereafter acquired by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company. This Pledge Agreement is the legal, valid and binding obligation of each of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company, enforceable against each of them in accordance with the terms herein.

SECTION 4. Further Assurances. (a) Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company jointly and severally agree that from time to time, at their expense, they will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary, or that the Pledge Agent may reasonably request, in order to perfect and protect the assignment, pledge and security interest granted or purported to be granted hereby or to enable the Pledge Agent to exercise and enforce the rights and remedies provided hereunder with respect to any Collateral. Without limiting the generality of the foregoing, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company jointly and severally will: (i) if any Collateral shall be evidenced by a promissory note or other instrument, deliver and pledge to the Pledge Agent hereunder such note or instrument duly endorsed and accompanied by

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duly executed instruments of transfer or assignment, all in form and substance satisfactory to the Pledge Agent; (ii) execute and file such financing or continuation statements, or amendments thereto, and such other instruments, endorsements or notices, as may be necessary, or as the Pledge Agent may reasonably request, in order to perfect and preserve the assignment, pledge and security interest granted or purported to be granted hereby; (iii) will defend the Collateral against any and all Liens howsoever arising (not including the security interest created by this Agreement), prior to or equal to the security interest created hereby; and (iv) if deemed necessary by the Pledge Agent to effect a sale of all or any portion of the shares pledged hereunder, register, at the expense of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company, such shares under the Securities Act of 1933 and/or the applicable Blue Sky laws of any state or other jurisdiction as may be requested by the Pledge Agent.

(b) Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby authorize the Pledge Agent to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral without the signature of any of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company where permitted by law. Copies of any such statement of amendment thereto shall promptly be delivered to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company as the case may be, but failure to make such delivery shall not affect the validity thereof.

SECTION 5. Exercise of Option. Upon payment of the Exercise Price to the Pledge Agent, the Pledge Agent shall deliver to CCAH all certificates evidencing the shares of Company and Bank pledged hereunder duly endorsed in blank or with executed stock powers in blank annexed to each such certificate, and release from the Lien established herein the remainder of the Collateral. Such delivery of the shares of Company and Bank shall operate to divest all right, title, interest, claim and demand, either at law or in equity, of any party to this Agreement (other than the distributee) in and to the shares of Company and Bank and shall be a perpetual bar both at law and in equity against

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the parties to this Agreement and against any person claiming or attempting to claim such shares of Company from, through, or under such party. The Exercise Price shall be applied as follows:

(a) first to the payment of all costs and expenses of the Pledge Agent, including reasonable compensation to the Pledge Agent and its agents and counsel;

(b) then to the satisfaction in full of any indebtedness (whether or not then due and owing) secured by any other pledge of the Collateral consented to by CCAH; and

(c) any surplus remaining shall be paid to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company or to whosoever may be lawfully entitled to receive the same.

SECTION 6. Voting Power. Dividends. Payments. Etc.

A. Rights Absent an Event of Default. Etc. (a) Unless and until an Event of Default has occurred and is continuing, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall have the right to exercise all voting, consensual and other powers of ownership pertaining to the shares pledged hereunder for all purposes not inconsistent with the terms of this Agreement or the Option Agreement, provided that such party agrees that it will give the Pledge Agent at least ten (10) days' prior notice of the manner in and purpose for which it intends to exercise, or the reasons for refraining from exercising, any such power, (ii) not vote such shares in any manner that is inconsistent with or would cause a default under the terms of this Agreement or the Option Agreement, and (iii) neither exercise, nor refrain from exercising, any such power if, in the judgment of the Pledge Agent, any such action or inaction would have a material adverse effect on the value of such shares or any part thereof.

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(b) The Pledge Agent shall execute and deliver to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company (as the case may be) or cause to be executed and delivered to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company (as the case may be) all such proxies, powers of attorney, dividend or other orders, and all such instruments, without recourse, as Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company may reasonably request for the purpose of enabling Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company to exercise the rights and powers that he or it is entitled to exercise pursuant to the preceding provisions of this Section 6.A.

B. Rights Upon Occurrence of Event of Default.
Etc. As a supplement to the rights under other provisions of this Agreement, if any Event of Default shall have occurred, then so long as the same shall continue, and whether or not CCAH exercises any right, or seeks or pursues any other relief or remedy, available to it under applicable laws or the Option Agreement:

(i) The Pledge Agent, or its nominee or nominees, shall forthwith, without further act by any party, have the sole and exclusive right to exercise all voting, consensual and other powers of ownership pertaining to the shares pledged hereunder and shall exercise such powers in such manner as the Pledge Agent, in its sole discretion, shall determine to be necessary, appropriate or advisable, and, if the Pledge Agent shall so request, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company agree to execute and deliver to the Pledge Agent such other and additional powers, authorizations, proxies, dividends and other orders, and such other documents, as the Pledge Agent may request to secure to the Pledge Agent the rights, powers and authorities intended to be conferred upon the Pledge Agent by this Section 6.B; and

(ii) All dividends and other distributions on or constituting any of the Collateral shall be paid directly to the Pledge Agent and retained by it as part of the Collateral, subject to the terms of this Agreement, and, if the Pledge Agent shall so request, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and

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Company agree to execute and deliver to the Pledge Agent appropriate additional dividend, distribution and other orders and documents to that end.

SECTION 7. Pledge Agent Appointed Attorney-in-Fact. Each of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby irrevocably appoints the Pledge Agent as their attorney-in-fact (which appointment as attorney-in-fact shall be coupled with an interest), with full authority in the place and stead of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company (as the case may be) and in the name of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company (as the case may be) or otherwise, from time to time in the Pledge Agent's discretion to take any action and to execute any instrument that the Pledge Agent may deem necessary or advisable to accomplish the purposes of this Agreement (the Pledge Agent not being obligated to do any of the foregoing), including, to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Collateral, to receive, endorse, and collect any drafts or other instruments, documents and chattel paper in connection therewith, and to file any claims or take any action or institute any proceedings that the Pledge Agent may deem necessary or desirable for the collection thereof or to enforce compliance with the terms and conditions thereof.

SECTION 8. Pledge Agent's Duties. The powers conferred on the Pledge Agent hereunder shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its actual possession, the accounting for moneys actually received by it hereunder, and the delivery to CCAH in accordance with the terms of Section 5 herein of the shares of Company and Bank pledged hereunder, the Pledge Agent shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve any rights pertaining to any Collateral.

SECTION 9. Rights and Remedies. (a) If any Event of Default shall have occurred and be continuing, all payments received by Dr. Pharaon, Interdec (Ltd.),

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Interdec (N.V.) or Company under or in connection with the Collateral shall be received in trust for the benefit of CCAH, shall be segregated from other funds of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company and shall be forthwith paid over to the Pledge Agent in the same form as so received (with any necessary indorsement or instrument of transfer);

(b) If any Event of Default shall have occurred and be continuing, then, in addition to any other rights and remedies provided for herein or that may otherwise be available, the Pledge Agent may without any further demand, advertisement or notice (except as expressly provided for below in this subsection (b)), exercise all the rights and remedies of a secured party under the applicable Uniform Commercial Code (whether or not said Code applies to the affected Collateral), and in addition: (i) may apply the moneys, if any, then held by it as part of the Collateral, for the purposes and in the order provided in Section 10 herein and (ii) if there shall be no such moneys or the moneys so applied shall be insufficient to satisfy in full all Obligations, may sell the Collateral, or any part thereof, as hereinafter provided. The Collateral may be sold in one or more sales, at public or private sale, conducted by any officer or agent of, an auctioneer or attorney for, the Pledge Agent, at the Pledge Agent's place of business or elsewhere, for cash, upon credit or for other property, for immediate or future delivery, and at such price or prices and on such terms as the Pledge Agent shall, in its sole and absolute discretion, deem appropriate. The Pledge Agent or CCAH, subject, however, to receipt of any necessary regulatory approval, may be the purchaser of any or all of the Collateral so sold at a public sale and thereafter hold the same, absolutely, free from any right or claim of whatsoever kind and the obligations of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company to such purchaser may be applied as a credit against the purchase price. The Pledge Agent may, in its sole discretion, at any such sale restrict the prospective bidders or purchasers as to their number, nature of business and investment intention, including a requirement that the prospective bidders or purchasers represent and agree, to the satisfaction of the Pledge Agent, that they are purchasing the Collateral for their own account, for investment, and

not with a view to the distribution or resale of any thereof. Upon any such sale the Pledge Agent shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser (including CCAH) at any such sale shall hold the Collateral so sold, absolutely free from any claim or right of whatsoever kind, including any equity or right of redemption, of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, and Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby specifically waive, to the full extent they may lawfully do so, all rights of redemption, stay or appraisal that they have or may have under any rule of law or statute now existing or hereafter adopted. The Pledge Agent shall give Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company at least ten (10) days' notice (which Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company agree is reasonable notification within the meaning of § 9-504(3) of the Uniform Commercial Code) of any such public or private sale. Such notice, in case of public sale, shall state the time and place fixed for such sale. Any such public sale shall be held at such time or times within ordinary business hours as the Pledge Agent shall fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels. The Pledge Agent shall not be obligated to make any sale pursuant to any such notice. The Pledge Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for such sale, and any such sale may be made at any time or place to which the same may be so adjourned without further notice or publication. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Pledge Agent until the full selling price is paid by the purchaser thereof, but the Pledge Agent shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold, and, in case of any such failure, such Collateral may again be sold pursuant to the provisions herein;

(c) Instead of exercising the power of sale provided in Section 9(b) herein, the Pledge Agent may proceed by a suit or suits at law or in equity to foreclose the assignment, pledge and security interest under this

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Agreement and sell the Collateral or any portion thereof under a judgment or decree of a court or courts of competent jurisdiction;

(d) The Pledge Agent as attorney-in-fact pursuant to Section 7 herein may, in the name and stead of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company, make and execute all conveyances, assignments and transfers of the Collateral sold pursuant to Section 9(b) or Section 9(c) herein, and Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby ratify and confirm all that the Pledge Agent, as said attorney-in-fact, shall do by virtue hereof. Nevertheless, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company shall, if so requested by the Pledge Agent, ratify and confirm any sale or sales by executing and delivering to the Pledge Agent, or to such purchaser or purchasers, all such instruments as may, in the judgment of the Pledge Agent, be advisable for the purpose;

(e) The receipt of the Pledge Agent for the purchase money paid at any such sale made by it shall be a sufficient discharge therefor to any purchaser of the Collateral, or any portion thereof, sold as aforesaid; and no such purchaser (or the representatives or assigns of such purchaser), after paying such purchase money and receiving such receipt, shall be bound to see to the application of such purchase money or any part thereof or in any manner whatsoever be answerable for any loss, misapplication or nonapplication of any such purchase money, or any part thereof, or be bound to inquire as to the authorization, necessity, expediency or regularity of any such sale; and

(f) The Pledge Agent shall incur no liability as a result of the manner of sale of the Collateral, or any part thereof, at any private sale conducted in a commercially reasonable manner. Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby waive, to the full extent permitted by applicable law, any claims against the Pledge Agent arising by reason of the fact that the price at which the Collateral, or any part thereof, may have been sold at a private sale was less than the price that might have been obtained at a public sale or was less than the aggregate amount of the Obligations, even if the Pledge Agent accepts the first offer received that the Pledge Agent in good faith

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deems to be commercially reasonable under the circumstances and does not offer the Collateral to more than one offeree. To the extent permitted by law, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company shall have the burden of proving that any such sale of the Collateral was conducted in a commercially unreasonable manner.

SECTION 10. Application of Proceeds. If an Event of Default shall have occurred and be continuing, all proceeds of any sale or enforcement of the Pledge Agent's rights in respect of the Collateral, and all moneys then held by the Pledge Agent as Collateral, shall be applied as follows:

(a) first to the payment of all costs and expenses of such sale or enforcement including reasonable compensation to the Pledge Agent and its agents and counsel;

(b) then to the payment in full of the Obligations, provided, however, that if at the time of such distribution the Obligations are not due, then the Pledge Agent shall hold all proceeds and moneys remaining after the payment of costs and expenses provided for by Section 10(a) herein until the Obligations are due and owing;

(c) then to the satisfaction in full of any and all indebtedness secured by any other pledge of the Collateral consented to by CCAH, provided that, if such indebtedness is not then due, then the remaining proceeds shall be held by the Pledge Agent until such indebtedness shall become due and owing; and

(d) any surplus remaining shall be paid to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company or to whosoever may be lawfully entitled to receive the same.

SECTION 11. Consents by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company. (a) Each of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby consents that, without notice to it:

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(i) at any time or from time to time, the time for performance of or compliance with any provision of the Option Agreement by Dr. Pharaon or Interdec (N.V.) may be extended or such performance or compliance may be waived by CCAH;

(ii) any of the acts permitted in the Option Agreement may be done;

(iii) the Option Agreement may from time to time be amended by Dr. Pharaon and Interdec (N.V.) and CCAH for the purpose of adding any provisions thereto or changing in any manner the rights of CCAH or of Dr. Pharaon and Interdec (N.V.) thereunder; and

(iv) any collateral security (including the Collateral) for all or any part of the Obligations may be exchanged, surrendered or otherwise dealt with and CCAH's interest therein may be released and may or may not be perfected, all as CCAH in its sole discretion may determine;

all without affecting the liability of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company hereunder.

(b) Each of Interdec (Ltd.) and Company hereby consents to the jurisdiction of the courts to the full extent provided with respect to Dr. Pharaon and Interdec (N.V.) in Section 19 of the Option Agreement, hereby appoints the Process Agent referred to therein as its agent for the purposes contemplated by said Section, and otherwise makes the same agreements as Dr. Pharaon and Interdec (N.V.) under said Section.

SECTION 12. Amendments, Etc. No amendment or waiver of any provision of this Pledge Agreement nor consent to any departure by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company herefrom shall in any event be effective unless the same shall be in writing and signed by the Pledge Agent, and then such waiver or consent shall be effective only in the specific instance and for the specified purpose for which given.

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SECTION 13. Addresses for Notices. All notices and other communications hereunder shall be given in accordance with Section 20 of the Option Agreement. Such notices shall be sent to the following addresses. If to Dr. Pharaon, Interdec (N.V.) or to CCAH, to the respective addresses specified in Section 20 of the Option Agreement. If to the Pledge Agent, at: 320 Park Avenue, New York, New York 10022, Attention: Manager; Cable: Int. N.Y. 00. If to Interdec (Ltd.), at 2000 Riveredge Parkway, Attention: Manager; Cable: Atlanta, Georgia 30326. If to Company, at 2000 Riveredge Parkway, Atlanta, Georgia 30326, Attention: Treasurer; Cable: 859958, Answer Back: NATL BKGA.

SECTION 14. Continuing Assignment, Pledge and Security Interest. This Agreement shall create a continuing assignment, pledge and security interest in the Collateral and shall (i) remain in full force and effect for the benefit of CCAH until the earlier of exercise of the Option or satisfaction in full of the Obligations, (ii) be jointly and severally binding upon Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company and their respective successors and assigns and (iii) inure, together with the rights and remedies of CCAH hereunder, to the benefit of CCAH and its successors, transferees and assigns.

Upon the earlier of (i) payment of the Exercise Price to the Pledge Agent and delivery to CCAH in accordance with Section 5 hereof of the shares of Company and Bank pledged hereunder, or (ii) satisfaction in full of the Obligations, the assignment, pledge and security interest granted hereby to the Pledge Agent on behalf of CCAH shall terminate and the Pledge Agent will, at the expense of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, deliver to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company such documents as Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall reasonably request to evidence such termination.

SECTION 15. Governing Law; Terms. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York. Unless otherwise defined herein or in the Option Agreement, terms used in Article 9 of the Uniform Commercial Code in the State of New York are used herein as therein defined.

SECTION 16. Headings. Headings used in this Agreement are for convenience of reference only and do not constitute part of this Agreement for any purpose.

SECTION 17. Severability. The parties hereto agree, to the fullest extent that they may effectively do so under applicable law, that in the event that one or more of the provisions hereof is held to be invalid, illegal or unenforceable in any respect in any jurisdiction, (a) the remaining provisions hereof shall not be affected or impaired and shall remain in full force and effect and shall be liberally construed in favor of CCAH in order to carry out the intention of the parties hereto as nearly as may be possible, and (b) such invalid, illegal or unenforceable provisions shall not be affected or impaired in any other jurisdiction.

IN WITNESS WHEREOF, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company have duly executed and delivered this Agreement as of the date first above written.

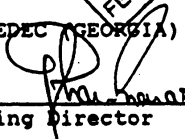

 Dr. Ghaith R. Pharaon
 INTERDEC (GEORGIA) LIMITED

[Seal]

By 
 Managing Director

INTERDEC (GEORGIA) N.V.

[Seal]

By 
 Managing Director

NBG FINANCIAL CORPORATION

[Seal]

By: W. W. Bateman
 Title:

Accepted:

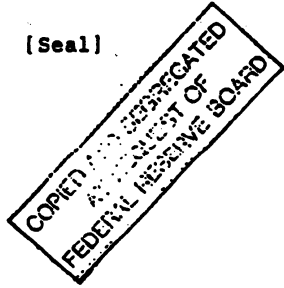
Bank of Credit and Commerce International, S.A.
 (New York Agency)

By: [Signature] [Seal]
 Title: OFFICER

Credit and Commerce
 American Holdings, N.V.

By: Robert A. Altman
 Title: Managing Director

[Seal]



PLEDGE AGREEMENT
CERTIFICATE OF WITNESS

The undersigned, Silvan Malik, DOES HEREBY CERTIFY that on the 18th day of December in the year 1986, Dr. Ghaith R. Pharaon, personally known to me to be the person whose name is subscribed to the attached Pledge Agreement, dated as of December 14th, 1986, individually and as Managing Director of Interedec (Georgia) Ltd. and Interedec (Georgia) N.V., personally appeared before me and executed and delivered such instrument and acknowledged to me that, being informed of the contents thereof, he executed and delivered the same, voluntarily in his individual capacity and in his capacity as Managing Director of Interedec (Georgia) Ltd. and Interedec (Georgia) N.V., for the purposes therein stated.

18th IN WITNESS WHEREOF, I have hereunto set my hand this day of December, 1986.

[Signature]

DISTRICT OF COLUMBIA) ss:

On this 18th day of December in the year 1986, before me Clara E. Baluk, a Notary Public in and for said District of Columbia, personally appeared Silvan Malik, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the above Certificate of Witness, who executed and delivered such certificate and affirmed to me under the penalty of perjury that the facts certified to therein were true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year this 18th day of December, 1986.

Clara E. Baluk
Notary Public

[Notarial Seal]

My commission expires:

Commission Expires September 30, 1988

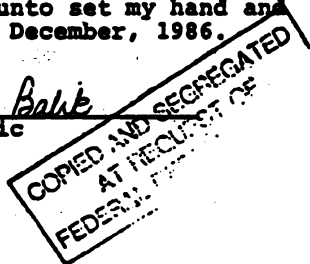
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DISTRICT OF COLUMBIA) ss:

On this 18th day of December in the year 1986, before me Clara E. Baluk, a Notary Public in and for said District of Columbia, personally appeared William W. Batastini, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the attached Pledge Agreement, dated as of December 18, 1986, as the Treasurer of NBG Financial Corporation, one of the companies that executed and delivered such instrument, and acknowledged to me that, being informed of the contents thereof, he executed and delivered the same, voluntarily in his capacity as such, for the purposes therein stated, on behalf of NBG Financial Corporation as the free act and deed of such company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal this 18th day of December, 1986.

Clara E. Baluk
Notary Public



[Notarial Seal]

My commission expires:

Commission Expires September 20, 1988

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COUNTY
CITY OF NEW YORK)
STATE OF NEW YORK) ss:

On this 18th day of December in the year 1986, before me DAVID S. FREEMAN, a Notary Public in and for said District ~~the State~~ ^{New York} of Columbia, personally appeared William J. Agui and A. SAED S. B. GUL, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the attached Pledge Agreement, dated as of December 18, 1986, as an officer and an officer of Bank of Credit and Commerce International, S.A., one of the companies that executed and delivered such instrument, and acknowledged to me that, being informed of the contents thereof, they executed and delivered the same, voluntarily in their capacity as such, for the purposes therein stated, on behalf of Bank of Credit and Commerce International, S.A. as the free act and deed of such company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal this 18th day of December, 1986

David S. Freeman
Notary Public

[Notarial Seal]

My commission expires:

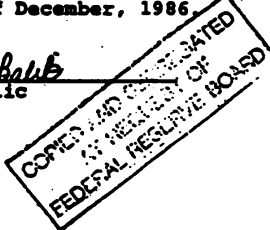
DAVID S. FREEMAN
Notary Public, State of New York
No. 4529669, expires
Qualified in November, 1987
Commission Expires 11/15/87

DISTRICT OF COLUMBIA) ss:

On this 18th day of December in the year 1986, before me Clara E. Balub, a Notary Public in and for said District of Columbia, personally appeared Robert A. Altman, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the attached Pledge Agreement, dated as of December 18, 1986, as a Managing Director of Credit and Commerce American Holdings, N.V., one of the companies that executed and delivered such instrument, and acknowledged to me that, being informed of the contents thereof, he executed and delivered the same, voluntarily in his capacity as such, for the purposes therein stated, on behalf of Credit and Commerce American Holdings, N.V. as the free act and deed of such company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal this 18th day of December, 1986.

Clara E. Balub
Notary Public



[Notarial Seal]

My commission expires:

Commission Expires September 30, 1988

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

380

SUBORDINATION AGREEMENT, dated as of December 18, 1986, made by Bank of Credit and Commerce International S.A. ("BCCI") in favor of Credit and Commerce American Holdings, N.V. ("CCAH").

PRELIMINARY STATEMENTS:

(1) Dr. Ghaith R. Pharaon ("Dr. Pharaon") and Interdec (Georgia) N.V. ("Interdec (N.V.)") have granted to CCAH an option (the "Option") to acquire the shares of NBG Financial Corporation ("Company") by agreement dated as of December 18, 1986 (as in effect at any time, the "Option Agreement") (all obligations, now existing or hereafter arising, of Dr. Pharaon or Interdec (N.V.) under the Option Agreement being hereinafter referred to as the "Option Obligations"). To secure to CCAH the prompt payment and performance of the Option Obligations, Dr. Pharaon, Interdec (Georgia) Limited ("Interdec (Ltd.)"), Interdec (N.V.) and Company have executed a Pledge Agreement dated as of December 18, 1986 (as in effect at any time the "CCAH Pledge") in favor of CCAH, and delivered to the Pledge Agent referred to therein the shares of Interdec (Ltd.), Interdec (N.V.), Company and the National Bank of Georgia ("NBG"), respectively.

(2) Dr. Pharaon, on his own behalf and on behalf of certain related entities, has borrowed from BCCI and availed of certain outstanding credit lines and facilities evidenced by promissory notes of Dr. Pharaon and secured by a Memorandum of Deposit dated January 1, 1985. BCCI also may provide Dr. Pharaon additional credit and banking facilities and accommodations, secured by a pledge from Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company to BCCI of the shares of Interdec (Ltd.), Interdec (N.V.), Company and NBG, respectively.

(3) The terms of the CCAH Pledge prohibit Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company from continuing in effect the Memorandum of Deposit or making an additional pledge of the shares of Interdec (Ltd.), Interdec (N.V.), Company or Bank absent the consent of CCAH. CCAH is willing to consent to the continuing effect of the Memorandum of Deposit and a further pledge of the shares of Interdec (Ltd.), Interdec (N.V.), Company and NBG to BCCI provided that BCCI subordinate any and all

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obligations, now existing or hereafter arising, including interest accruing thereon subsequent to any insolvency or similar proceeding, of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company to BCCI (the "Subordinated Debt") to the prior payment and performance of the Option Obligations.

Unless otherwise defined herein, terms defined in the Option or the CCAH Pledge shall have herein the meanings provided therein.

NOW, THEREFORE, in consideration of the premises and in order to provide for the subordination required by CCAH, BCCI hereby agrees for the benefit of CCAH as follows:

SECTION 1. Agreement to Subordinate. BCCI agrees that the Subordinated Debt (including any lien securing all or any thereof) is and shall be subordinate to the extent and in the manner hereinafter set forth, in right of payment to the prior payment and performance in full of the Option Obligations.

SECTION 2. Loan Limitation. BCCI agrees that, so long as the Option remains outstanding and any of the Option Obligations remain unpaid, the aggregate outstanding amount of the Subordinated Debt secured by the shares of Interdec (Ltd.), Interdec (N.V.), Company or MBG shall not exceed \$140,000,000.00.

SECTION 3. No Payment on or Enforcement of the Subordinated Debt. BCCI agrees not to ask, demand, sue for, take or receive from Dr. Pharaon or Interdec (N.V.), directly or indirectly, in cash or other property or by set-off or in any other manner (including, without limitation, from or by way of collateral), payment in respect of any of the Subordinated Debt, or enforce any rights or exercise any remedies in respect of the Subordinated Debt, unless and until the Option Obligations shall have been paid in full; provided, however, that BCCI may receive and Dr. Pharaon may make payments of principal and interest on the Subordinated Debt, if at the time of making of any such payment and immediately after giving effect thereto, no event of default under the Option Agreement or CCAH Pledge and no event that, with the giving of notice or the lapse of time, or both, would become an event of default thereunder, shall have

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occurred and be continuing. For the purposes of this Agreement, the Option Obligations shall not be deemed to have been paid in full until the Option shall have been exercised, cancelled or terminated in accordance with its terms, the Option Obligations have been paid in full and the CCAH Pledge shall have terminated in accordance with its terms.

SECTION 4. In Furtherance of Subordination. BCCI agrees as follows:

(a) Upon any distribution of all or any of the assets of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company to creditors of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company upon the dissolution, winding up, liquidation, arrangement, reorganization, adjustment, protection, relief or composition of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company or his or its debts, whether in any bankruptcy, insolvency, arrangement, reorganization, receivership, relief or similar proceedings or upon an assignment for the benefits of creditors or any other marshalling of the assets and liabilities of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, or otherwise, any payment or distribution of any kind (whether in cash, property or securities) that otherwise would be payable or deliverable upon or with respect to the Subordinated Debt shall be paid or delivered directly to CCAH for application to the Option Obligations until the Option Obligations shall have been paid in full.

(b) If any proceeding referred to in subsection (a) above is commenced by or against Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company,

(i) CCAH is hereby irrevocably authorized and empowered (in its own name or, after 5 days notice to BCCI, in the name of BCCI or otherwise), but shall have no obligation, to demand, sue for, collect and receive every payment or distribution referred to in subsection (a) above and give acquittance therefor and to file claims and proofs of claim and take such other action (including enforcing any security interest or other lien securing payment of the Subordinated Debt) as it may deem necessary or advisable for the exercise or

enforcement of any of its rights or interests hereunder; and

(ii) BCCI shall duly and promptly take such action as CCAH may request (A) to execute and deliver to CCAH such powers of attorney, assignments or other instruments as it may request in order to enable it to enforce any and all claims with respect to, and any security interests and other liens securing payment of, the Subordinated Debt, and (B) to collect and receive any and all payments or distributions that may be payable or deliverable upon or with respect to the Subordinated Debt.

(c) All payments or distributions upon or with respect to the Subordinated Debt that are received by BCCI contrary to the provisions of this Agreement shall be received in trust for the benefit of CCAH, shall be segregated from other funds and property held by BCCI and shall be forthwith paid over to CCAH in the same form as so received (with any necessary endorsement).

(d) Upon payment of the Exercise Price to the Pledge Agent, BCCI shall release the shares of Company and NBG from the lien of the pledge securing the Loan Obligations and shall execute such releases or other documents as CCAH may deem desirable to evidence such release.

SECTION 5. Rights of Subrogation. BCCI agrees that no payment or distribution to CCAH pursuant to the provisions of this Agreement shall entitle BCCI to exercise any rights of subrogation in respect thereof until the Option Obligations shall have been paid in full.

SECTION 6. Option Obligations Hereunder Not Affected. All rights and interests of CCAH hereunder, and all agreements and obligations of BCCI under this Agreement, shall remain in full force and effect irrespective of:

(i) any lack of validity or enforceability of the Option Agreement, the CCAH Pledge or any other agreement or instrument relating thereto;

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(ii) any amendment or waiver of or any consent to departure from the Option Agreement or the CCAH Pledge;

(iii) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any guaranty, for all or any of the Option Obligations; or

(iv) any other circumstances that might otherwise constitute a defense available to, or a discharge of, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company in respect of the Option Obligations or BCCI in respect of this Agreement.

This Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Option Obligations is rescinded or must otherwise be returned by CCAH upon the insolvency, bankruptcy or reorganization of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company or otherwise, all as though such payment had not been made.

SECTION 7. Waiver. BCCI hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Option Obligations and this Agreement and any requirement that CCAH protect, secure, perfect or insure any security interest or lien or any property subject to the Option Agreement or the CCAH Pledge or exhaust any right or take any action against Dr. Pharaon or any other person or entity or any collateral.

SECTION 8. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing and, if to BCCI, mailed or delivered to it, at the address shown below, if to CCAH, mailed or delivered to the address specified in the Option Agreement or as to each party at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this Section. All such demands, notices and other communications shall, when mailed or telegraphed, be effective when deposited in the mails or

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delivered to the telegraph company, as the case may be, addressed as aforesaid.

SECTION 9. No Waiver: Remedies. No failure on the part of CCAH to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 10. Continuing Agreement. This Agreement is a continuing agreement and shall remain in full force and effect until the Option Obligations shall have been paid in full. The terms of the CCAH Pledge provide that upon payment in full of the Option Obligations, the CCAH Pledge shall terminate and the shares of Interdec (Ltd.), Interdec (N.V.), Company and NBC shall be released from the lien established by the CCAH Pledge. CCAH shall provide such documents evidencing such termination and release as BCCI may reasonably request.

SECTION 11. Miscellaneous. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York and shall be binding upon the respective successors and assigns of the parties hereto. This Agreement may not be amended unless such amendment is in writing and signed by BCCI and CCAH.

IN WITNESS WHEREOF, BCCI has duly executed as an instrument under seal and delivered this Agreement as of the date first above written.

BANK OF CREDIT AND COMMERCE
INTERNATIONAL S.A.

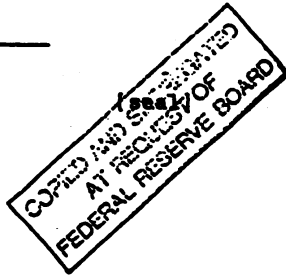
[seal]

By: _____
Title:

Address for notices:

CREDIT AND COMMERCE AMERICAN
HOLDINGS, N.V.

By: Robert L. Altman
Title: Managing Director



CABLE CLINEY
TELEX 248888 CLEY

TELEPHONE
(202) 828-420

Clifford & Warnke
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D. C. 20006

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

AD 191

ROBERT A. ALTMAN

May 8, 1986

DIRECT LINE (202) 828-423

Mr. Swaleh Naqvi
Bank of Credit and Commerce
International
100 Leadenhall Street
London, England EC3A 3AD

Dear Mr. Naqvi:

I am enclosing the memoranda concerning the acquisition of the National Bank of Georgia that was discussed in Luxembourg. Several points should be noted:

1. The memoranda consider a possible payment by the investors of 50-60 million dollars of their CCAH stock in addition to cash. It is hoped that in negotiations a payment involving CCAH stock would not be necessary. Any such payment that is required would have to come from the stock currently held by the investors since CCAH itself is not now acquiring the company. When the investors subsequently contribute the NBG stock to CCAH, and receive additional shares of the company, it will - depending on valuations - effectively dilute the initial ownership position of Dr. Pharaon in CCAH.

2. In discussions with Dr. Pharaon, it should be noted that significant tax advantages would appear to accrue to him by reason of the sale to the investors rather than a sale to NCNB.

3. In an analysis prepared by Mr. Scoffone, Senior Vice President and Treasurer of First American Bankshares, NBG financial statements as of March 31, 1986 were used which disclose stockholders' equity of 93.9 million. This figure is, of course, higher than the year-end numbers on which we had been relying, and which Dr. Pharaon had mentioned.

4. In making our analysis, certain assumptions were necessary. These have generally been explained in footnotes in the documents.

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Mr. Swaleh Naqvi
May 8, 1986
Page 2

5. The transaction we structured contemplates \$60 million in debt. It would be appropriate if BCCI itself wished to consider being a lender.

6. Our review makes clear that the creation of a separate company to acquire NBG until CCAH is able to own it would raise significant financial problems. Were our investor(s) to purchase the bank individually or as a group, we could avoid these problems, including the creation of significant goodwill on the books of the bank.

7. It is hoped that negotiations would produce a deal for \$160 - \$175 million in cash, with no stock. Mr. Scoffone provides information concerning various other bank sales, but it is clear that we are nearing the point at which this purchase is too expensive. And, we have never seen a written bid from NCNB.

We understand that NCNB has leaked news of their NBG acquisition, and several brokers are aware of it. It becomes increasingly important to conclude this matter one way or the other as soon as possible.

If you have any questions, please call me. I trust you will forward this information to Mr. Abedi.

Sincerely,



Robert A. Altman

Enclosures

CABLE CLANEY
TELEX 240886 CLEY

23

TELEPHONE
1202 622-4200

*Clifford & Warnke
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D.C. 20006*

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

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September 4, 1986

VIA COURIER

Mr. Swaleh Naqvi
Bank of Credit and Commerce
International
100 Leadenhall Street
London, England EC3A 3AD

Re: Option to Acquire NBG Financial Corporation

Dear Mr. Naqvi:

I enclose the following documents for your review in connection with the proposed option to acquire NBG Financial Corporation (NBG Financial) and the loan by BCCI to Dr. Pharaon:

1. Option Agreement;
2. Loan Agreement;
3. Pledge Agreement;
4. Subordination Agreement; and
5. Unconditional Guaranty.

The main features of these documents are summarized in Attachment A. They assume that there is no debt secured by the National Bank of Georgia (NBG) shares except as may be later authorized with respect to the BCCI loan to Dr. Pharaon.

In addition, I enclose a "back-up" option which would also be executed by Dr. Pharaon and Interedec (Georgia) N.V. whereby one or more of the individual shareholders of CCAH would be in a position to acquire NBGFC at the same purchase

Mr. Swaleh Naqvi
September 4, 1986
Page Two

price in the event that CCAH is legally unable to do so within the 18-month period available under the main option.

In addition to the documents accompanying this letter, payment of the option fee by CCAH and execution of the BCCI loan agreement with Dr. Pharaon would be conditioned upon receipt of routine opinions of counsel as to certain general matters set forth on Attachment B.

I look forward to discussing these documents with you after you have had an opportunity to review them.

Sincerely,

Robert A. Altman

Enclosures

ALTMAN DEPOSITION

6/23/78

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VIRGINIA BANK SHR.

1 A. I don't recall.

2 Q. What was the amount of the second rights
3 offering with respect to the National Bank of Georgia
4 that you indicated took place approximately a year
5 later?

6 A. I believe it was approximately \$150 million.
7 But again, I don't recall exactly.

8 Q. And were all of the funds raised in that
9 rights offering devoted to the acquisition of the
10 National Bank of Georgia?

11 A. I don't believe that they all were, no.

12 Q. Do you recall what portion of them were not so
13 devoted?

14 A. Well, the cost of the National Bank of Georgia
15 transaction was approximately \$255 million. Whatever
16 was raised in addition to that was used for working
17 capital of the company or to meet regulatory
18 requirements.

19 And there was no relationship between the
20 excess amounts and any other particular transaction. We
21 just made a rights offering anticipating the need for
22 continued working capital because primarily of the

1713

100 LEADENHALL STREET LONDON EC3A 3AD

DATE 14 January 1986

FROM Shahid Jamil

TO Mr Agha Hasan Abedi
The President, BCC
cc Mr S Naqvi

SUBJECT VALUATION OF CCAH SHARES

INTRODUCTION

In recent years, the banking industry in the USA has virtually led all other industries in the number of mergers and acquisitions. Most banks are beginning to seek economies of scale which are being forced upon them by nonbanking financial institutions and interest rate deregulation. In this context, the heightened bank merger and takeover activity can be seen as one response to these earning pressures as individual banks now seek to tap new and relatively attractive markets, to develop larger customer bases over which to spread fixed costs, to maximise opportunities to price on a value added basis and to support development of new technologies.

MAJOR INVESTMENT VALUATION FACTORS

- 1 Given the initiative of individual states in passing interstate banking legislation and the sanctioning of this process by the judiciary system, the nature of current merger activity is shifting in favour of interstate combinations. At present, 27 states have passed some form of legislation with several other states currently considering the issue. Looking ahead, merger activity is likely to increase both in numbers of transactions and in size of average deal. While some of the most visible mergers to date have occurred in the South-East and New England (whose states were early in passing reciprocal interstate legislation) it is probable that other regions of the country will have significant mergers of their own.
- 2 Merger activity is likely to continue to be dominated by transactions made between regional banks. At the same time, interstate legislation has been enacted by an increasing number of states. Interstate merger activity is no longer a sole prerogative for the states in the SouthEast and New England. Regional banks with strong franchises in their home states can be expected to seek entry into new markets aggressively. Indeed, given a relative scarcity of attractive potential combinations in most states, there has been a strong incentive for banks interested in making acquisitions to move quickly to reach understandings.
- 3 Considering the growing scarcity of suitable banks for acquisition, the fast pace of recent merger agreements and the acquisition premiums which have continued to grow higher (premiums of better than two times book value have been quite common) many investors in acquired institutions continue to be rewarded handsomely.

- 2 -

- 4 The rising trend in premiums paid relative to book values of acquired institutions have increased noticeably over the last three years (1983/4/5) and particularly in the first three quarters of 1985 compared to earlier periods. The efficiency of the market in discounting potential takeovers has made it increasingly difficult for future acquirers to profit from possible future mergers. Increasingly high premiums over book value will be commanded by medium sized institutions with strong market franchises, good asset quality and superior records of profitability.

SPECIAL ADVANTAGES APPLICABLE TO FIRST AMERICAN BANKSHARES

- 1 In addition to the applicable factors listed above, First American Bankshares has banks in 5 states (including DC) where each bank has a network of branches covering its respective state. It is the only multistate bank holding company in the USA which has full service commercial operations in both New York and the nation's capital. It owns and operates a network of 212 branches of First American Banks in New York, Maryland, Virginia, Washington DC and Tennessee.
- 2 First American Banks are also uniquely positioned to take advantage of the compact between 13 South Eastern states, half of which have passed interstate banking legislation and the others are considering the same. On this basis, First American Banks will have the legal right to expand by setting up or acquiring banks in a growing number of neighbouring states.
- 3 Many US money centre banks, particularly those from New York, who have so far been largely excluded from interstate banking are very keen to buy First American Bankshares because of its rare and unique franchise of having banks in 5 states and the possibility of these banks, in turn, gaining access to other states. Many New York Banks are particularly keen to enter the Washington DC market because of the large US Government business and foreign government embassy business and related spinoffs which are presently handled by some Washington DC banks.

BASIS OF VALUATION OF CCAN SHARES

- 1 In order to gauge the rising trend in premiums paid relative to book value, we give overleaf data on many selected commercial bank mergers over the past three years, 1983/4/5. This data is useful in drawing conclusions regarding the premiums paid by domestic acquirers for banks which have a presence in one state only.

- 3 -

<u>Banks Acquired 100%</u>	<u>Announcement Date</u>	<u>Times Book Value</u>
1983		
Bank of Commerce	04.01.83	1.62
Peachtree Bancshares Inc	19.04.83	2.12
Ellis Banking Corp	16.08.83	1.79
First Bankshares Corp of South Carolina	02.09.83	1.78
Florida Coast Banks Inc	19.09.83	1.79
Florida Coast Banks Inc	29.09.83	1.99
Southwest Florida Banks Inc	26.10.83	1.79
1984		
First National Bank & Trust - Kearney (NJ)	14.02.84	2.10
Florida Coast Banks Inc	14.03.84	2.05
Citizens Trust Co (VA)	11.04.84	2.48
Georgia Bancshares Inc	11.05.84	2.70
Trust Company of Georgia	29.06.84	2.07
NBC Bancshares Inc (LA)	29.08.84	2.12
Centran Corp (OH)	24.09.84	2.58
1985		
First Atlanta Corp (GA)	17.06.85	2.26
DC Nat'l Bancorp Inc (DC)	01.07.85	2.79
Bankers Trust of S. Carolina	03.07.85	2.37
Union Trust Bancorp (VA)	16.07.85	2.49
Arizona Bancwest Corp (AZ)	29.08.85	2.64
United Bancorp of Arizona(AZ)	05.09.85	2.66
Citizens & Southern Corp(SC)	17.09.85	2.53

- 2 In view of the fact that First American Bankshares can also be acquired by another foreign bank holding company and has an existing interstate presence in 5 states and is also uniquely positioned to expand into other neighbouring states, it would be appropriate to conservatively value this in the middle of the above spectrum of banks acquired by domestic acquirers in 1985 which would be around 2.50 times latest twelve months book value.
- 3 In conclusion, the rising profitability trend of First American Bankshares over the past 3 years since its acquisition by Middle East investors in 1982, may well enable them to receive a higher premium than 2.50 times book value from interested buyers.

Shahid Jamil

Shahid Jamil

5737



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOCIETE ANONYME
 100 LEADENHALL STREET LONDON EC3A 3AD

19

16 May 1988

MR. Robert A. Altman
 Clifford & Warnke
 815 Connecticut Avenue
 Washington D.C. 20006
 U.S.A

Dear Mr Altman

Pursuant to our telefax message of 31 March 1988, we enclose certificates numbered 72 and 73 of the shares of Credit and Commerce American Holdings N.V. registered respectively in Mr Clifford's name and your name.

Also enclosed is a statement of signature A) giving details of the new share certificates to be issued.

With best regards.

Yours sincerely,

IMRAN M A IMAM

Encs

1. Name of the Shareholder :- Mr. Robert Altman

2. Details of acquisition of shares:-

DATE	NO OF SHARES BOUGHT (SOLD)	BALANCE	PRICE PER SHARE	TOTAL VALUE OF SHARES BOUGHT (SOLD)	SOURCE OF ACQUISITION	FINANCED BY	CERTIFICATE NO.	REMARKS
24.07.86	2247	2,247	2,216	4,979,352	Purchased from Mashriq Holding Co.	Loan BCC	73	84
17.08.87	475	2,722	2,430	1,154,250	Right Shares	Personal Resources	93	85
31.03.88	(1600)	1,122	(6,800)	(10,880,000)	--	--	--	Sold to MMI 411
18.07.89	75	1,197	2,774	208,050	Right Shares	Loan BCC	Awaited	87


Following Share Certificate's comprise the total Holdings

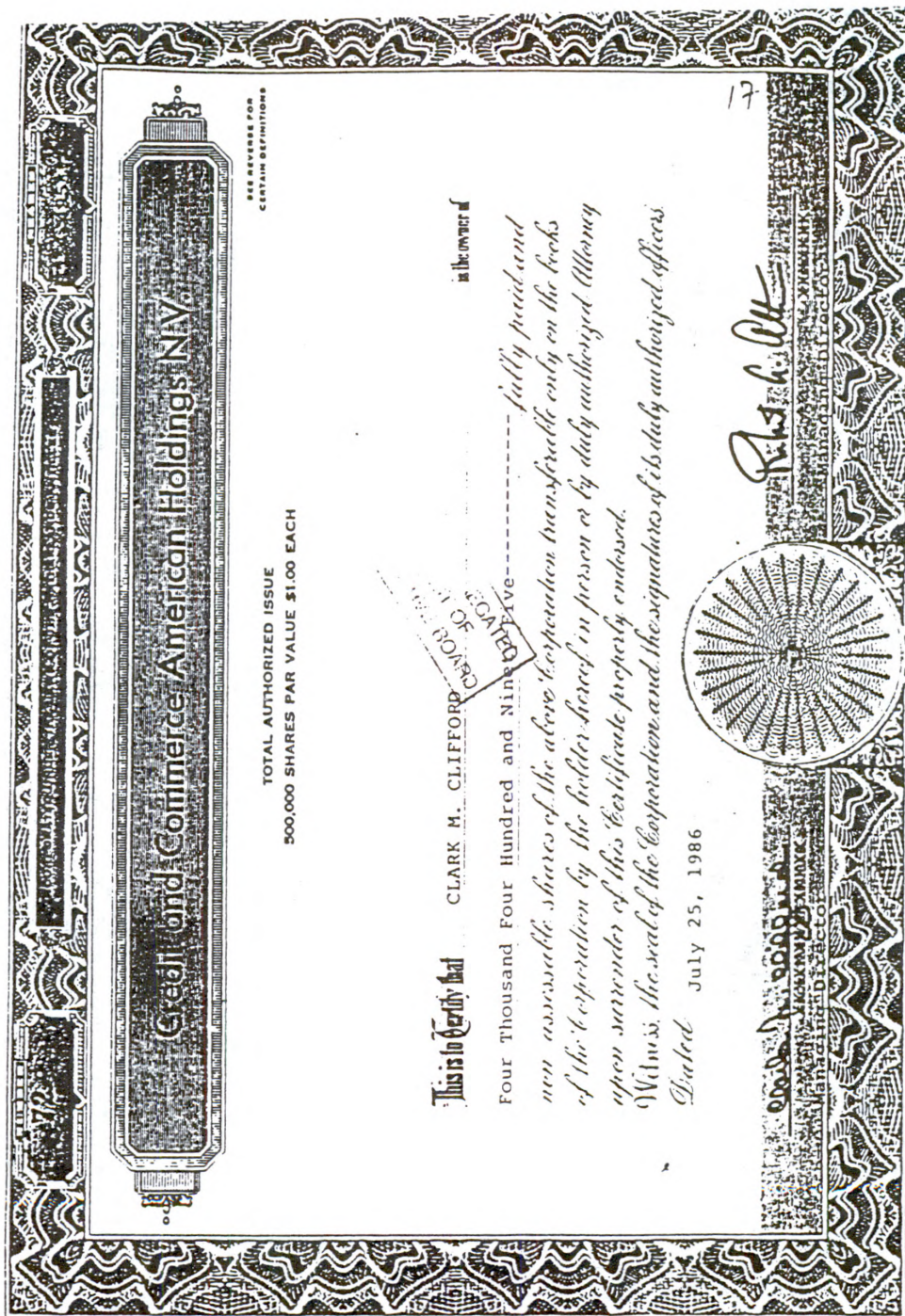
SHARE CERTIFICATE NO.

NO. OF SHARES

73	2,247	Custody of these shares is outside
93	475	Custody of these shares is with C.S.O. U.K.
Awaited	75	Custody of these shares is with C.S.O. U.K.
	<u>2,797</u>	

SHARE CERTIFICATES FOR CANCELLATION

NAME OF THE HOLDER	CERTIFICATE NUMBER (DATE)	NUMBER OF SHARES	NEW SHARE CERTIFICATES TO BE ISSUED
Mr Clark M Clifford	72 	4,495	(i) 1,295 Shares to be retained in Mr Clifford's name. (ii) 3,200 Shares to be issued in the name of Mr Mohammad M. Hammoud.
Mr Robert A Altman	73	2,247	(i) 647 Shares to be retained in Mr Altman's name. (ii) 1,600 shares to be issued in the name of Mr Mohammad M Hammoud.



Credit and Commerce American Holdings N.V.

TOTAL AUTHORIZED ISSUE
500,000 SHARES PAR VALUE \$1.00 EACH

SEE REVERSE FOR
CERTAIN DEFINITIONS

16

is the owner of

Two Thousand Two Hundred and Forty-Seven ----- fully paid and
non-assessable shares of the above Corporation transferable only on the books
of the Corporation by the holder thereof in person or by duly authorized Attorney
upon surrender of this Certificate properly endorsed.

Witness the seal of the Corporation and the signatures of its duly authorized officers.

Dated July 25, 1986

ROBERT A. ALTMAN
ATTEST

R. A. Altman
Managing Director

R. A. Altman
Managing Director

MAY 6 '91 14:05

HILL AND KNOWLTON

Hill and Knowlton
Public Affairs Worldwide Co.
Washington Harbour
901 31st Street, N.W.
Washington, D.C. 20007-3838
202-333-7400
Telecopy 202-333-1638
Telex 440143 HKDC

Frank Mankiewicz
Vice Chairman

MEMORANDUM

From: Frank Mankiewicz 

Attached is the First American memorandum addressing the issues concerning Mr. Clifford's and Mr. Altman's ownership of the Company's stock.

I believe First American has fully covered this subject, and then some, and I hope you will find the detailed information provided to be of use.

I would like to stress a few points:

- The fundamental contention of The Washington Post story of May 5, indeed its lead sentence - is untrue, and worse, never supported in the remainder of the article. The Post says regulators were told "that BCCI would have no financial relationship with First American and its senior management." No such statement was ever made. In fact, First American was free to have financial dealings with BCCI on an arms-length basis - as it did with many banks - and audits have confirmed that no impropriety occurred. As to financial dealings with senior management, I have no idea what representation or discussion the Post is talking about.

- These investments were not secretive ownership; rather, the Directors had full knowledge of both the purchases, and approved them. They were also encouraged by shareholders, and the ownership was timely reported to regulators, as required.

MAY 6 '91 14:05

PAGE.003

HILL AND KNOWLTON

- 2 -

- The loan from BCCI was made with the advice of New York counsel who had been involved in the original regulatory proceedings. None, then or now, believes the loan contravened any commitment to the Federal Reserve. And even if one reads the one sentence of the 1981 application with the interpretation the Post suggests, it seems to me this is a hypertechnical issue, considering the loan was repaid in full, with interest, more than three years ago.

- If you look, and I strongly encourage you to do so, at compensation packages provided other senior officers at comparable institutions, by any reasonable standard the compensation of Mr. Clifford and Mr. Altman for the past nine years is modest. As you know, million-dollar-plus salaries and extensive corporate perquisites are commonplace; Mr. Clifford and Mr. Altman had neither.

- Mr. Clifford's and Mr. Altman's stock interests in First American are not subject to divestiture in connection with allegations concerning BCCI's alleged control over any CCAH shares.

MAY 6 '81 14:06

HILL AND KNOWLTON

Recent questions have been received concerning stock ownership in First American by Mr. Clark Clifford and Mr. Robert Altman. Absent compelling reasons for public disclosure, Messrs. Clifford and Altman consider their financial affairs to be private and confidential. Nevertheless, in the interest of a full understanding of the facts and to avoid unwarranted speculation or error, the following compilation of facts has been prepared on this subject.

Clark Clifford was asked by the shareholders and Board to serve as Chairman of First American in 1982 in connection with the acquisition of the Company. When he accepted the position, he informed them that while he intended to devote his energies to building and revitalizing the Company, he was aware that success was not assured and was therefore not prepared to accept a large salary. He and the Board agreed that he would accept a payment of \$50,000 per year. This has remained unchanged for the past nine years.^{2/}

It was Mr. Clifford's feeling that if he and his partner, Robert Altman (who was to become president of First American Corporation, but without salary), were successful in developing the potential of the franchise, and able to increase substantially the value of the stockholders' investment, he would expect that later on he and Mr. Altman would be given the opportunity to acquire stock in the Company. In that way they might profit from their efforts. In effect, they took on

^{2/} Neither Mr. Clifford nor Mr. Altman has received any of the perquisites such as use of corporate aircraft, life or health insurance, club memberships, profit sharing arrangements, pensions, or cash bonuses which are usually a part of compensation packages for individuals in similar senior positions in banking. Mr. Clifford, as Chairman, was provided access to a company car beginning mid-1987. Mr. Altman has never had a company car.

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HILL AND KNOWLTON

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the task on a contingent basis.--'

The first four years were a period of intense effort by Mr. Clifford and Mr. Altman with major investments of their time and energy. Each bank was carefully analyzed, and a close association with the directors, officers, and employees was developed. Basic bank strategies, financial targets, and operating procedures were set, and additional banking professionals were recruited to supplement the existing officer group. The banks began to flourish. Substantial growth came from within, but also some strategic acquisitions were made, particularly in New York and Virginia.

By 1986, it was clear that the project was thriving under the stewardship of Messrs. Clifford and Altman, and successful years lay ahead. In those four years, assets had increased from \$2.3 billion to \$7.2 billion. Deposits grew from \$1.8 billion to \$5.9 billion. Annual income had doubled from \$20 million to \$41 million. The profit to the shareholders on their investment was large and growing. Given this degree of progress, it then appeared appropriate to Messrs. Clifford and Altman, and to the Board and shareholders, for each of them to acquire stock in the Company.

As the Company grew, funds needed for expansion were raised by periodic rights offerings to the shareholders. (The first such offering took place in 1983.) In 1986 a rights offering of \$150 million was made. If an offering was undersubscribed by the existing shareholders, the shares not purchased would be offered by the Board, at its discretion, to other persons at the same price. This occurred in the 1986 offering, which gave Messrs. Clifford and Altman the opportunity to purchase some of the unsubscribed shares. Mr.

--/ The firm of Clifford & Warnke has served as general counsel to First American and its parent holding companies -- which do not have in-house corporate legal affairs departments -- since 1982 with Board and shareholder approval. Appropriate bills have been submitted for legal services rendered in accordance with firm practice. A number of other highly regarded law firms also have rendered ongoing legal services and advice to First American and its parent companies over the years. Mr. Clifford and Mr. Altman have participated in the partnership income of Clifford & Warnke as members of the firm.

Clifford & Warnke's representation of the shareholders had existed for some four years prior to 1982. The legal representation of First American would have occurred after the acquisition without regard to whether Mr. Clifford and Mr. Altman accepted corporate positions at the Company.

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HILL AND KNOWLTON

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Clifford bought 4495 shares for \$9.9 million and Mr. Altman bought 2247 shares for \$4.9 million. First American shareholders encouraged the purchases, and the directors of First American's holding company approved the transactions. Such ownership was also reported to the Federal Reserve and appropriate state banking authorities in annual filings made by First American.

The price paid for the shares by Messrs. Clifford and Altman was exactly the same price that was paid by all the shareholders -- book value. Selling stock at book value to raise capital is a practice that was followed in all First American offerings; the same practice was followed by First American's subsidiary banks in selling shares to the public. Mr. Clifford and Mr. Altman never received any gifts of stock, stock options, incentive stock awards, or discounted purchase prices for stock.

After negotiating with two foreign banks, the purchases were financed by 18-month (Libor based) loans from BCCI - the bank that had served as the investment adviser and communications link to the shareholders of First American since the purchase of the Company.^{2/} The loans were negotiated at arms length, with the advice and assistance of New York counsel to Clifford and Altman, and were concluded on a non-recourse basis, fully collateralized by pledges of the shares. To service the loans, substantial interest payments were made while the loans were outstanding, by both Messrs.

^{2/} A question was raised concerning representations made to bank regulators in 1981 in connection with the acquisition of the Company that BCCI would not be a lender with respect to the "acquisition" by the investors of the shares of the Company. Counsel to First American has confirmed that this representation was intended to relate solely to the tender offer financing in 1982 to acquire the Company, and there was no blanket regulatory prohibition against later borrowings from BCCI or any other bank.

It should also be pointed out that throughout the time of these transactions there was no reason to consider the involvement of BCCI as a lender to be inappropriate or controversial. Indeed, given BCCI's familiarity with First American and its owners, it was in an excellent position to consider the value of the collateral being offered for the loan. The current notoriety about BCCI did not occur until late in 1988 in connection with charges of money laundering, and allegations that BCCI may have gained control over some First American stock at some time during the past nine years arose subsequently in 1989 and 1990.

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HILL AND KNOWLTON

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Clifford and Altman.

As a result of the purchases, Mr. Clifford and Mr. Altman had stock ownership that was consistent with customary share incentive plans for senior corporate officials in the United States. Messrs. Clifford and Altman retained legal title to the shares at all times, including voting rights.

In 1987, with First American continuing to thrive, Messrs. Clifford and Altman, as shareholders, participated in the next capital rights offering by the Company, each subscribing to his respective pro rata allotment of shares. Mr. Clifford bought 951 shares for approximately \$2.3 million, and Mr. Altman bought 475 shares for approximately \$1.15 million. Again, First American shareholders encouraged the purchases, and the directors of First American's parent company approved them. The ownership was again reported to the banking authorities. They were financed in a manner similar to the 1986 purchases.

In 1988 when First American was enjoying a record year and shares of banking companies similar to First American were trading at significant premiums, Messrs. Clifford and Altman decided to sell a portion of their holdings. By that time the shareholders had invested approximately \$550 million in First American; based on numerous, published banking transactions in the United States during this period, the Company was conservatively worth \$1.5 billion (based on a multiple of book value), leaving a potential profit for the shareholders, after only six years, of approximately \$1 billion.

In response to Messrs. Clifford and Altman's inquiry, another of the existing shareholders of the Company made an offer to purchase 4800 shares, for cash, at \$6,800 per share.^{2/} We understand that other sales transactions in the stock between other shareholders were made at similar prices. We are informed, for example, that another transaction between investors occurred during this period at approximately \$6,100 per share. In March 1988 Mr. Clifford accepted the offer and sold 3200 shares representing

^{2/} The purchaser later died in 1990 and his heirs now have claimed legal ownership of those holdings. At the time of this transaction, neither Mr. Clifford nor Mr. Altman knew whether the purchaser, a wealthy investor, had obtained financing for the purchase, or the source of any such financing. Nor was there any reason for them to have inquired as to these matters.

Recent information provided by the purchaser's estate representatives indicates that the purchaser has no personal loans from BCCI and that his First American shares are not pledged to BCCI. First American has no independent information about such matters. The shares, which were purchased in the shareholder's personal name, are claimed as the property of his estate.

HILL AND KNOWLTON

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approximately 60% of his holdings; Mr. Altman sold 1600 shares representing approximately 60% of his holdings. ://

On March 31, 1988, Messrs. Clifford and Altman received \$21,760,000 and \$10,880,000 respectively for the purchase of their stock. Using the proceeds of the sale, Messrs. Clifford and Altman paid off in full the principal and remaining interest on their loans that same day. As shown in the table below, after repaying all the indebtedness, commissions, and Federal and State taxes, Mr. Clifford's net cash from the sale was approximately \$2.75 million; and Mr. Altman had received approximately \$1.35 million. Each owned, and continues to own, the balance of his stock free and clear.

Clark M. Clifford

Amount Received	\$21,760,000.00
Less:	
Costs and expenses paid	
Repaid Note of July 25, 1986	(9,960,920.00)
Repaid Note of August 14, 1987	(2,310,930.00)
Interest paid on loans	(1,411,831.00)
Commission on sale	(3,500,000.00)
Subtotal	\$6,576,319.00
State and Federal Taxes (approx.)	(3,825,000.00)
Net cash to Clark M. Clifford	\$ 2,752,319.00

Robert A. Altman

Amount Received	\$10,880,000.00
Less:	
Costs and expenses paid	
Repaid Note of July 25, 1986	(4,979,352.00)
Repaid Note of August 14, 1987	(1,154,250.00)
Interest paid on loans	(725,289.00)
Commission on sale	(750,000.00)
Subtotal	\$ 3,271,109.00
State and Federal Taxes (approx.)	(1,918,000.00)
Net cash to Robert A. Altman	1,353,109.00

// It is incorrect to assume that the shares retained by Clifford and Altman could be assigned the same value per share as those sold to one interested purchaser.

In 1989 another rights offering was made to the shareholders. Again, Messrs. Clifford and Altman each purchased the pro rata number of shares available to them with the approval of the Company's directors; the resulting ownership was reported to the regulatory authorities. These purchases were not financed through any bank.

In 1990 a sale of \$30 million of convertible debentures was offered to shareholders. Again Mr. Clifford and Mr. Altman purchased their pro rata allotment of the debentures without financing from any bank. Mr. Clifford purchased a debenture with a face amount of approximately \$250,000 and Mr. Altman purchased a debenture of approximately \$125,000. Each continues to hold their debentures.

Mr. Clifford and Mr. Altman remain small shareholders of the Company, owning .83 and .41 percent, respectively, of the shares outstanding. Their stock ownership continues to be reported in annual filings with bank regulatory authorities. Mr. Clifford and Mr. Altman have continued to have all right, title, and interest in the shares registered in their respective names. There is no existing lien or claim against the shares by any person or entity. There is no way to place a value on Mr. Clifford's and Mr. Altman's present stock holdings because there is no market for the shares.

In summary, at least two points should be emphasized:

- 1) The financial benefits received by Mr. Clifford and Mr. Altman over the past nine years, however computed, are exceedingly reasonable when compared to executives in similar positions. It is also important to note the enormous value they have been central in creating for shareholders.
- 2) There was no reason at the time of these transactions for any one to consider the role played by BCCI to be remarkable or inappropriate. The transactions, including BCCI loans, were reviewed at the time by other legal counsel for Mr. Clifford and Mr. Altman who were familiar with the history of the case and all relevant factors.

CABLE CLINEY
TELEX 240888 CLEY

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TELEPHONE
12001 820-4200

Clifford & Warrick
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D. C. 20006

CLARK M. CLIFFORD

DIRECT LINE 12001 820-4200

July 25, 1986

Bank of Credit and Commerce
International (Overseas) Ltd.

~~198 Broad Street~~ Fort Street, P.O. Box 1359.
~~George Town, Grand Cayman~~ George Town, Grand Cayman.

RE: Note and Pledge Agreement for US \$9,960,920.00 dated July 25, 1986 ("Note") payable to the Bank of Credit and Commerce International (Overseas) Limited ("BCCI") by Clark M. Clifford (the "undersigned") of same date for the stock of Credit and Commerce American Holdings, N.V. ("CAHA").

Gentlemen:

With regard to the Note and the Pledge Agreement (jointly referred to herein as "Loan Documents"), and notwithstanding any provision of said Loan Documents to the contrary, BCCI and the undersigned hereby confirm and agree as follows:

- 1) Certain clients of BCCI have given BCCI a firm commitment to purchase any and all of the undersigned's CAHA shares at such time as the undersigned wishes to sell said shares.
- 2) BCCI shall arrange for the sale of said CAHA shares to such clients, or to other interested buyers in such manner, amount, and at such prices as BCCI and the undersigned shall mutually determine. BCCI and the undersigned shall consult as to the timing of such sales, the sales price per share, and the amount of shares to be sold. This shall serve further to confirm that BCCI is authorized to sell the CAHA shares as stated herein.
- 3) If for any reason there is a delay in arranging the sale of said CAHA shares and the Note becomes due, BCCI shall assist in refinancing said loan and interest accrued thereon on the same basis as the

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Bank of Credit and Commerce
International (Overseas) Ltd.
July 25, 1986
Page 2

Note provides, or shall roll over the Note for such periods as may be mutually agreed between BCCI and the undersigned.

- 4) As a result of the arrangements set forth in paragraph 1, BCCI has a ready market for the CCAH shares held as collateral by BCCI to secure repayment of the Note. Accordingly, and, notwithstanding any provision of the Note or Pledge Agreement (or any other document relating to the loan by the undersigned to BCCI) to the contrary, it is understood and agreed that the undersigned shall not be obligated personally to repay to BCCI the loan principal or any interest accrued thereon. BCCI shall be limited solely to the undersigned's interest in the CCAH shares and any proceeds thereof to repay the loan and interest thereon as set forth in the Note and related documents. Proceeds from the sale of CCAH shares in excess of the amount sufficient to pay the principal and interest due on the Note shall be paid to the undersigned.
- 5) In the event BCCI assigns the Note to any other party, such assignment would be subject to and governed by the undertakings and confirmations set forth herein.

If the foregoing correctly sets forth your understanding of the transaction, please indicate in the space provided below.

Sincerely,

Clark M. Clifford
Clark M. Clifford

Understood and Agreed:

Bank of Credit and Commerce
International (Overseas) Ltd.

BY _____

[Signature]

1713

*Clifford & Warick
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington D C 20005*

July 25, 1956

Bank of Credit and Commerce
International (Overseas) Ltd.
100 Leadenhall Street
London, England EC3A 3AD

ATTN: Mr. Swaleh Naqvi

Gentlemen:

I am enclosing an executed note of the Bank dated July 25, 1956, ("printed note") which constitutes an exhibit to the typed Promissory Note dated July 25, 1956 ("typed note"), concerning a loan to the undersigned in the amount of \$4,979,352.00.

It is expressly understood and agreed that, notwithstanding any provision in the printed note to the contrary, in any and all instances where there is a conflict between the provisions of the typed note and the provisions of the printed note, including, without limitation, provisions concerning the term of the note, source of repayment, and collateral, the typed note shall in all respects govern and control. If the foregoing correctly sets forth your understanding of our agreement concerning the above referenced loan, please execute this letter in the space provided below.

Sincerely,

Robert A. Altman
Robert A. Altman

AGREED AND UNDERSTOOD:

BY: _____
BANK OF CREDIT AND COMMERCE
INTERNATIONAL (OVERSEAS) LTD.

1655

Secured by suggestion
2 21/4
Trumbull

MR. CLARK W. CLIFFORD

I. Interest Calculation on Loans

1. Account No. 11008744

Loan balance	US\$ 11,922,293.92
Less: principal	(US\$ 9,950,920.00)
Interest + charges	US\$ 1,961,373.92
Refund of interest paid	US\$ 672,362.10
Total of interest + charges on the loan	US\$ 2,633,736.02

2. Account No. 11009585

Loan balance	US\$ 2,526,126.93
Less: principal	(US\$ 2,310,930.00)
Total of interest + charges on the loan	US\$ 215,196.93
Total of interest and charges on both loans	US\$ 2,848,933.00

II. Evaluating the Capital Gain

For the purpose of calculating capital gains tax, the second loan is treated by the IRS as a gain; the first loan is considered as the basis. Furthermore, the profit of US\$3.0 million is also treated as a gain.

Profit payable	US\$ 3,000,000.00
Interest + charges	US\$ 2,848,933.00
Principal of the 2nd loan	US\$ 2,310,930.00
Gain payable to the borrower	US\$ 8,159,863.00

— This gain is taxable at 28%. Under the agreement, the tax liability is to be reimbursed to CMC. This gain is therefore treated as net gain, and the gross gain is calculated as follows:—

$$\begin{aligned} \text{Net gain (NG)} &= \text{Gross gain (GG)} - 28\% \text{ of Gross gain} \\ \text{or } \text{GG} &= \frac{\text{NG}}{0.72} \end{aligned}$$

$$\begin{aligned} \text{Gross gain} &= \frac{\text{US\$8,159,863.00}}{0.72} = \text{US\$11,333,143.06} \\ \text{Tax on Gross gain @ 28\%} &= \text{US\$ 3,173,280.06} \end{aligned}$$

1758

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS THAT THE UNDERSIGNED HAS MADE, CONSTITUTED AND APPOINTED, AND BY THESE PRESENTS DOES HEREBY MAKE, CONSTITUTE, AND APPOINT, ROBERT A. ALTMAN, OF THE LAW FIRM OF CLIFFORD & WARNKE, AS THE UNDERSIGNED'S TRUE AND LAWFUL AGENT AND ATTORNEY-IN-FACT TO ACT IN THE NAME, PLACE AND STEAD, AND ON BEHALF OF, THE UNDERSIGNED WITH RESPECT TO ANY AND ALL MATTERS RELATING TO THE TRANSFER SALE OR OTHER DISPOSITION OF REGISTERED SHARES IN CREDIT AND COMMERCE AMERICAN HOLDINGS N.V. (THE 'COMPANY'), HELD IN THE NAME OF THE UNDERSIGNED, GIVING AND GRANTING UNTO SUCH AGENT AND ATTORNEY-IN-FACT, FULL POWER AND AUTHORITY TO DETERMINE THE PRICE PER SHARE TO BE PAID AND, UPON VERIFICATION OF RECEIPT OF THE UNDERSIGNED OF THE FULL PURCHASE PRICE, TO ENDORSE OVER THE CERTIFICATE ON BEHALF OF THE UNDERSIGNED TO THE PURCHASER AND TO PERFORM EACH AND EVERY ACT AND THING WHATSOEVER REQUIRED AND NECESSARY TO BE DONE TO EFFECTUATE THE TRANSFER OF OWNERSHIP, INCLUDING ARRANGING THE DELIVERY OF SAID CERTIFICATE TO THE PURCHASER AND THE PROPER ENTRY ON THE SHARE REGISTER OF THE COMPANY. THE UNDERSIGNED HEREBY RATIFIES EACH AND EVERY ACTION TAKEN BY MR. ALTMAN AS THE UNDERSIGNED'S AGENT AND ATTORNEY-IN-FACT WITH RESPECT TO ANY ACTION TAKEN BY HIM IN CONNECTION WITH ANY OF THE FOREGOING MATTERS.

IN WITNESS WHEREOF, THE UNDERSIGNED HAS HEREUNTO SET HIS HAND AS OF THE

DAY OF



MOHAMMAD M. HAMMOUD

BY: _____

TITLE: _____

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS THAT THE UNDERSIGNED HAS MADE, CONSTITUTED, AND APPOINTED, AND BY THESE PRESENTS DOES HEREBY MAKE, CONSTITUTE, AND APPOINT, ROBERT A. ALTMAN, OF THE LAW FIRM OF CLIFFORD & WARNKE, AS THE UNDERSIGNED'S TRUE AND LAWFUL AGENT AND ATTORNEY-IN-FACT TO ACT IN THE NAME, PLACE AND STEAD, AND ON BEHALF OF, THE UNDERSIGNED WITH RESPECT TO ANY AND ALL MATTERS RELATING TO THE TRANSFER, SALE OR OTHER DISPOSITION OF 2,940- REGISTERED SHARES IN CREDIT AND COMMERCE AMERICAN HOLDINGS N.V. (THE 'COMPANY'), HELD IN THE NAME OF THE UNDERSIGNED AND EVIDENCED BY CERTIFICATE NO. 16 (THE 'CERTIFICATE'), GIVING AND GRANTING UNTO SUCH AGENT AND ATTORNEY-IN-FACT FULL POWER AND AUTHORITY TO DETERMINE THE PRICE PER SHARE TO BE PAID AND, UPON VERIFICATION OF RECEIPT OF THE UNDERSIGNED OF THE FULL PURCHASE PRICE, TO ENDORSE OVER THE CERTIFICATE ON BEHALF OF THE UNDERSIGNED TO A PURCHASER AND TO PERFORM EACH AND EVERY ACT AND THING WHATSOEVER REQUIRED AND NECESSARY TO BE DONE TO EFFECTUATE THE TRANSFER OF OWNERSHIP, INCLUDING ARRANGING THE DELIVERY OF SAID CERTIFICATE TO THE PURCHASER AND THE PROPER ENTRY ON THE SHARE REGISTER OF THE COMPANY. THE UNDERSIGNED HEREBY RATIFIES EACH AND EVERY ACTION TAKEN BY MR. ALTMAN AS THE UNDERSIGNED'S AGENT AND ATTORNEY-IN-FACT WITH RESPECT TO ANY ACTION TAKEN BY HIM IN CONNECTION WITH ANY OF THE FOREGOING MATTERS.

IN WITNESS WHEREOF, THE UNDERSIGNED HAS HEREUNTO SET HIS HAND AS OF
THE DAY OF 1983.



Mohammed Husain Qabazard

BY : _____

TITLE : _____



320 PARK AVENUE NEW YORK NY 10022

DATE: December 19, 1988

FROM: Laila Alizai

TO: Mr. Amer Saleem
U.S.R.OSUBJECT: M.M. Hammoud/Congressional Place

Please refer to your approval for issuance of a Standby LC for \$380,000 favoring the City of Alexandria. As already advised to Shahbaz last week, FABNY advises that FAB Virginia is willing to issue the Standby LC @ 1% p.a.; FABNY's charges will be an additional .50% p.a. I have discussed this with Mr. Imtiaz Ansari of Mr. Hammoud's office today, and he has agreed to an all in rate. of 2.75%; this would leave us with 1.25% p.a.]

Please provide approval for these charges urently.

Regards,

Laila Alizai
.....

QB

001213

320 PARK AVENUE NEW YORK NY 10022

DATE:

August 15, 1990FROM: Credit Department
New York AgencyTO: Mr. Shahbaz Raheem
USRO Credit DepartmentSUBJECT: ZURICH CORPORATION/M. M. HAMMOUD

As you are aware, the interest on the loan of \$10 million given by First American Bank to Zurich Corporation under our SBLC of \$10.1 million is not being serviced by Zurich. Accordingly, First American have debited our account with the following amounts.

<u>DATE</u>	<u>AMOUNT</u>
7/2/90	\$90,416.67
7/25/90	\$87,500.00

Please advise which account should be debited in order to respond to these entries.

Our account with First American Bank has also been debited with the following amounts:

<u>BORROWER</u>	<u>SBLC AMOUNT</u>	<u>AMOUNT DEBITED</u>	<u>DATE</u>	<u>REMARKS</u>
M. M. Hammoud	\$378,081	\$1,890.41	5/21/90	Commission for period 6/5/90 to 12/5/90 First American Bank New York.
M. M. Hammoud	\$378,081	\$ 946.00	6/15/90	D.O. First American Bank Virginia.
Carlson Farms	\$150,000	\$ 750.00	7/14/90	Commission for period 6/7/89 to 6/1/90 First American Bank New York.

Please advise regarding these amounts also.

Regards,


Raghu Bahadur

cc: Mr. Mohammed Ali

NY 0006030
CONFIDENTIAL

1. Name of the Shareholder :- M.M. Hammoud

2. Details of acquisition of shares:-

DATE	NO OF SHARES BOUGHT (SOLD)	BALANCE	PRICE PER SHARE	TOTAL VALUE OF SHARES BOUGHT (SOLD)	SOURCE OF ACQUISITION	FINANCED BY	CERTIFICATE NO.	REMARKS
24.07.86	5747	5,747	2,216	12,735,352	Right Shares of A.R.K.	Loan BCC	66	88. The Loans are in the names of Mid-Gulf Tr
17.08.87	1216	6,963	2,430	2,954,880	Right Shares	Loan BCC	91	89 Company and Rubston
17.08.87	2803	9,766	2,430	6,811,290		Loan BCC	85	90 Trading Company and
31.03.88	1600	11,266	6,800	10,880,000	Purchased from Altman	Loan BCC	101	91 portion of the loan CCAI Subscription Ac
31.03.88	3200	14,566	6,800	21,760,000	Purchased from Clifford	Loan BCC	99	92 at BCC Cayman
18.07.89	968	15,534	2,774	2,685,232	Right Share	Loan BCC	115	93
18.07.89	881	16,415	2,774	2,443,894	Right Shares of A.R.K.	Loan BCC	109	94
18.07.89	1785	18,200	2,774	4,951,590	Right Shares of Burford Investment	Loan BCC	116	95

3744

Following Share Certificate's comprise the total Holdings

SHARE CERTIFICATE NO	NO. OF SHARES	
66	5,747	Custody of these shares is with C.S.O. U.K.
91	1,216	Custody of these shares is with C.S.O. U.K.
85	2,803	Custody of these shares is with C.S.O. U.K.
101	1,600	Custody of these shares is with NCB Bahrain
99	3,200	Custody of these shares is with NCB Bahrain
115	968	Custody of these shares is with C.S.O. U.K.
109	881	Custody of these shares is with C.S.O. U.K.
116	1,785	Custody of these shares is with C.S.O U.K.
	<hr/> 18,200 <hr/>	

TELEPHONE
202 828-8200

23

Clifford & Warriner
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D. C. 20006

ROBERT A. ALTMAN

DIRECT LINE 12021828-4235

July 23, 1987

COPIES OF CHECKS
AT REQUEST OF
INTERNATIONAL OVERSEAS
LEAVE BOARD

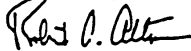
Bank of Credit and Commerce
International (Overseas)
Fort Street, P. O. Box 1359,
George Town
Grand Cayman

ATTN: Mr. Swaleh Naqvi

Gentlemen:

Enclosed is my check in the amount of \$336,106.26 in full payment of one year's interest on my loan in the principal sum of \$4,979,352 U.S. Dollars, which was extended to me on June 25, 1986. Thank you for your assistance in this matter.

Sincerely,



Robert A. Altman

Enclosure

ROBERT A. ALTMAN
815 CONNECTICUT AVE., N.W.
WASHINGTON, D.C. 20006

136

June 23, 1987 154
640

PAY TO THE Bank of Credit and Commerce Int'l (Overseas) 336,106.26**
ORDER OF Ltd.

Three Hundred Thirty-six Thousand One Hundred Six and 26/100 DOLLARS

1ST AMERICAN
FIRST AMERICAN BANK OF WASHINGTON, DC
20006

FOR Interest on loan thru 7/23/87

10540000431 5 433 844

27

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

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1673

PURCHASE AND SALE AGREEMENT

This Agreement is made this 26th day of April, 1988, by and between Robert A. Altman, 815 Connecticut Avenue, NW, Washington, D. C. 20006 ("Seller") and Bank of Credit and Commerce International, 100 Leadenhall Street, London, England EC3A 3AD ("Buyer"), concerning Seller's agreement to sell, and Buyer's agreement to purchase, on the terms and conditions set forth herein, the shares of Credit and Commerce American Holdings, N.V. ("CCAH") owned by the Seller.

WHEREAS, CCAH is a closely held, private company owned by foreign investors; and,

WHEREAS, the CCAH shares owned by the Seller represent a small percentage of the shares of CCAH outstanding; and,

WHEREAS, no cash dividends on the CCAH shares have been paid to date, nor are any expected; and,

WHEREAS, the Seller would like to assure liquidity of his CCAH shares in the event of his death; and,

WHEREAS, Seller's heirs and representatives might encounter serious difficulties and/or delays in arranging a sale of Seller's shares; and,

WHEREAS, Buyer serves as financial adviser to certain clients that are shareholders of CCAH; and,

WHEREAS, Buyer is expected to protect the business and financial interests of said clients; and,

WHEREAS, said clients of Buyer are available from time to time to purchase additional shares of CCAH when offered for sale, and Buyer has arranged such sales in the past; and,

WHEREAS, it is believed by the parties to be in the best interests of all shareholders of CCAH to avoid undue fragmentation in the shareholdings of the Company; and,

WHEREAS, the value of Seller's CCAH shares after his death is uncertain, particularly given the small percentage of CCAH stock that Seller owns.

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

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NOW, THEREFORE, in consideration of the mutual promises herein contained and for other good and valuable consideration, it is hereby understood and agreed, as follows:

TERMS AND CONDITIONS

(1) In the event Seller owns any shares of CCAH at the time of his death, Seller hereby agrees to sell, and Buyer hereby agrees to buy, all of said CCAH shares, for cash, at a price of \$2,310.00 (U.S.) per share which currently represents Seller's average cost per share. The closing on the purchase and sale of the CCAH shares shall take place promptly following receipt of written notice to the Buyer from Seller's representative advising Buyer of Seller's death. In no event shall the purchase and sale of the CCAH shares be delayed more than 90 days following receipt of said notice to Buyer.

(2) At the closing, Seller's representative shall deliver to the Buyer certificate(s) representing the shares to be purchased, appropriately endorsed and in proper form for transfer, and the Buyer shall deliver a certified or cashiers check payable to the Seller's order in the aggregate amount of the purchase price.

(3) Nothing herein shall prevent the Seller from selling or disposing of any CCAH shares he owns prior to his death, nor shall BCCI be obligated to purchase any CCAH shares owned by the Seller prior to Seller's death.

(4) The laws of the State of Maryland shall govern the interpretation, validity and performance of the terms of this Agreement regardless of the law that might be applied under the principles of conflicts of laws. Both parties to this Agreement consent irrevocably to the personal jurisdiction of the courts of the State of Maryland and of any federal court located in such State over both of them in connection with any action or proceeding relating to this Agreement and/or any breach of this Agreement. Neither party shall contest that the proper venue for filing and maintaining such action shall be in the State of Maryland.

(5) All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally, or sent by registered or certified mail, postage prepaid, to the party to whom it is directed:

59

- (a) To the Seller, to him, at
815 Connecticut Avenue, NW
Washington, D.C. 20006
- (b) To the Buyer, to it, at
100 Leadenhall Street
London, England EC3A 3AD

or at such other address as the party shall have specified by notice in writing to the other as provided herein.

(6) This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(7) This Agreement is binding upon the parties and their respective legal representatives, heirs, executors, administrators, successors, and assigns, in accordance with its terms.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BANK OF CREDIT AND COMMERCE
INTERNATIONAL

BY: 


CLARK M. CLIFFORD



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

December 13, 1989

Mr. Robert A. Altman, Esq.
Clifford & Warnke
812 Connecticut Avenue N.W.
Washington, D.C. 20006

COPIED AND SIGNED
AT REQUEST OF
FEDERAL RESERVE BOARD

Dear Mr. Altman:

In connection with the application of Credit and Commerce American Holdings N.V. and Credit and Commerce American Investment, B.V. to become a Bank Holding Company with respect to Financial General Bankshares Inc. a question was raised concerning the financing of the investor's equity participations. Specifically, an issue was raised on whether any of the financing of the equity investment would be provided directly or indirectly by Bank of Credit and Commerce International S.A. (BCCI). It was indicated at the time that the individual investors had substantial funds and only a modest portion of the total investments would be financed. Further, any personal borrowing by the investors would come from financial institutions unaffiliated with BCCI.

It has come to our attention that at least some of the investors may have borrowed from BCCI. It may be that these borrowings were unconnected with the Financial General Bankshares transaction, but nevertheless, were granted close to the time the acquisition was made. Some, if not all, of the borrowings may be secured by the stock of Financial General Bankshares. In order to clarify the situation it would be helpful if you would provide information on any loans extended to the original or subsequent investors, either directly or indirectly, by BCCI or any of its affiliated organizations. This information should include all loans extended to the investors regardless of purpose, whether any of these loans are secured and if so, in what manner, and the

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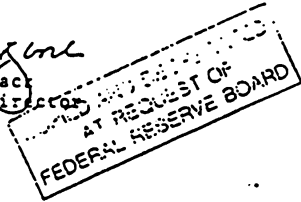
- 2 -

date any loans were originally granted. It would also be useful to provide information on the repayment history of any such loans.

If you have any questions, please do not hesitate to contact the undersigned at (202) 452-2722.

Very truly yours,

William A. Rypack
William A. Rypack
Deputy Associate Director

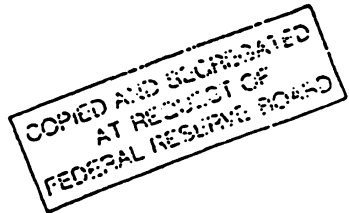


0023

PRIVILEGED & CONFIDENTIAL

January 31, 1990

Mr. Robert Altman, Esq.,
 Clifford & Warnke,
 815 Connecticut Avenue, N.W.
 WASHINGTON DC 20006.
 U.S.A.



Dear Mr. Altman,

I am writing in response to your inquiry concerning whether there were any loans from Bank of Credit and Commerce International, S.A. to any of the shareholders of Credit and Commerce American Holdings, N.V. in connection with the acquisition of Financial General Bankshares in March 1982. I have reviewed a copy of the letter dated December 13, 1989 addressed to you from Mr. William A. Ryback of the Federal Reserve that you provided me, as well as the original and current list of First American shareholders which you also made available.

As I explained, I cannot provide you with confidential information about our customers' financial arrangements with BCCI without their express prior authorization.

On a preliminary basis, I am able to confirm the accuracy of the representations made to the Federal Reserve in the Board application that the acquisition of Financial General Bankshares was not financed in any respect by BCCI. Insofar as the Federal Reserve has been informed that "some of the investors may have borrowed from BCCI," we can confirm that none of the shareholders involved in the acquisition had any personal loans from BCCI during the years 1981 (when the application was filed) or 1982 (when the acquisition was completed). The Board's misimpression may be due to the existence of some unrelated loans from BCCI for working capital requirements of various other businesses in which certain shareholders had interests. Of course no stock of CCAH or Financial General was placed as collateral for these loans. I trust this is helpful as an interim report. When I am able to provide full details, it should be completely dispositive.

You should be aware that in the years following the acquisition, some of the persons who are on the list of shareholders of Credit and Commerce American Holdings, N.V. have from time to time borrowed from BCCI for various purposes. Other individuals -- including some who appear as the larger investors in First American -- have not borrowed from BCCI, and do not have any CCAH stock pledged to secure outstanding loans.

.... /2

I further understand that a copy of this matter may be provided by you to Mr. Ryback on a confidential basis.

Sincerely,



SWALEH NAQVI

COPIED AND SUBMITTED
AT REQUEST OF
FEDERAL RESERVE BOARD

Clifford & Harbo
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D.C. 20006

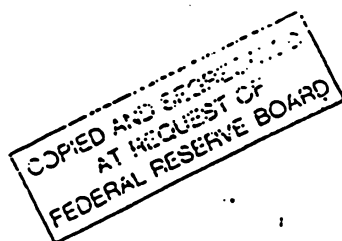
ROBERT A. ALTMAN

DIRECT LINE 1201 616-4124

February 5, 1990

RY HAND

Mr. William A. Ryback
 Deputy Associate Director
 Division of Banking Supervision
 and Regulation
 Federal Reserve Board
 Washington, D. C. 20551



Dear Mr. Ryback:

I am writing in response to your letter dated December 13, 1989, and as a follow up to the telephone conferences we have had regarding the issues you have raised.

As we have discussed, we do not have access here to information regarding any financial arrangements that might exist between a shareholder of Credit and Commerce American Holdings, N.V. and other financial institutions, including the Bank of Credit and Commerce International, S.A. ("BCCI"). Based on our consultations with the resident managing director for Credit and Commerce American Holdings in the Netherlands Antilles, we can only confirm that no pledge or security interest has ever been recorded on the Company's share register by any lender.

In order to be properly responsive to your inquiry, and given the practical difficulty in communicating quickly with these shareholders, we concluded that the most expeditious way to procure the information would be to ask BCCI directly to furnish it. Accordingly, I spoke with Mr. Swaleh Naqvi, the Chief Executive Officer, and provided him a copy of your letter together with a list of the original and current shareholders.

I have today received a reply from Mr. Naqvi which is self-explanatory. While BCCI has not yet provided the detailed information we are requesting, we are pleased that /

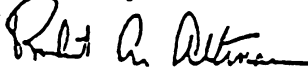
Letter to Mr. William A. Ryback
 February 5, 1990
 Page 2

the letter confirms the accuracy of the representations made by the investors in their Board application. Mr. Naqvi states flatly that ACCI did not finance the acquisition "in any respect." Mr. Naqvi has asked that his letter be handled on a confidential basis by the Board.

I shall, of course, press ahead with my request for the detailed information you wish to review, with my understanding that your primary interest is the current state of borrowings from BCCI by any of the First American investors, including any stock that may have been pledged as collateral for loans. I further understand that you are not basically interested in loans to various businesses in which the shareholders may have interests, but instead are interested in their personal borrowings or any of their loans secured by First American stock. I shall keep you fully informed as I obtain additional information from the shareholders and/or from BCCI.

I trust this is helpful as a preliminary report. If you have any questions or comments, please let me know.

Sincerely,


 Robert A. Altman

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May 8, 1990

MEMORANDUM TO THE FILE

RE: Meeting with Federal Reserve Staff

A meeting was held at the Federal Reserve beginning at 6:00 PM with William A. Ryback (Deputy Associate Director, International Supervision and Applications, Banking Supervision and Regulation Division), Don E. Kline (Associate Director, Bank Holding Companies, Banking Supervision and Regulation Division), James Keller (Legal Division), and a Mr. Barnes to discuss with the staff any concerns that may have arisen following the publication of articles in Reverdie's and the Wall Street Journal. In this regard, we also wished to discuss Mr. Ryback's earlier inquiry concerning any BCCI loans to First American shareholders in connection with the acquisition of Financial General by the investors, or which are otherwise of interest.

Mr. Tuttle stated that the purpose of the meeting was to answer any questions the staff might have arising from the articles, to address any issues about BCCI's relationship with First American, and to report to them current information available concerning any BCCI funding of the 1982 acquisition of Financial General. Mr. Altman reviewed a letter from BCCI President, Mr. Swaleh Naqvi, a copy of which had previously

- 2 -

been sent to Mr. Ryback, advising us that BCCI had not financed the acquisition in any respect. See Attachment A. Mr. Altman further reported that follow-up letters had been sent to each of the First American shareholders requesting confirmation that the original purchases were made from personal funds and seeking authorization to review with BCCI loans made subsequently to the investors which may have been secured by a pledge of CCAH shares. See Attachment B.

Mr. Ryback indicated he was not really interested in subsequent loans from BCCI, but asked instead that we seek Mr. Naqvi's permission for Mr. Ryback to share the Naqvi letter with other supervisors. Specifically, he would like to provide a copy to the regulatory authorities overseas which apparently had first raised the matter with him. He did not identify the regulatory body or bodies. The suggestion was that by forwarding to them a copy of Mr. Naqvi's letter, he should be able "to close his file on this matter." Mr. Altman said he would contact Mr. Naqvi and request such permission; we did not anticipate any objection. Mr. Ryback will be traveling for the next 10 days or so and we should secure a response by the time he returns.

Mr. Altman reviewed our reaction to the Regardie's and Wall Street Journal pieces, and advised them of a subsequent meeting with two reporters from the Washington Post. He reported that documentation developed during the regulatory proceedings approving the applications refuted the basic

- 3 -

allegations in the Regardie's article as to (i) the allegedly unsavory background of the investors and (ii) the suggestion that federal and state regulatory approvals had been obtained on the basis of mere representations by legal counsel. Copies of correspondence from the N.Y. State Banking Department to Congressman Rosenthal and Congressional testimony by former Federal Reserve Board Chairman, Henry Wallich, were furnished to the Board staff. See Attachments C and D. Mr. Keller noted that the Board staff had in fact undertaken a very thorough regulatory review of the transaction, and he agreed with the assessment of the N.Y. Banking Department letter and the Wallich testimony that the review was extraordinarily comprehensive.

Mr. Altman further advised that testimony in the Tampa criminal proceedings by the government's chief witness appeared fully to rebut the Wall Street Journal contention that widespread money laundering was known and condoned at the highest levels of BCCI senior management. In fact, the testimony establishes to the contrary; such activity was contrary to clear BCCI policies and those engaged in such wrongdoing at lower levels had to keep it secret from senior management.

Mr. Altman next turned to the issue of the BCCI/First American relationship. The acquisition of BCCI by Abu Dhabi was noted (along with reported sweeping management changes) which substantially lessened the shareholder overlap between

- 4 -

the companies. Mr. Altman, however, advised of efforts to pursue the issue raised by Mr. Ryback and stated that identical letters had been sent to each CCAH shareholder requesting confirmation that their acquisition of First American had been with personal funds and seeking further information regarding loans, if any, from BCCI that might have been granted by a pledge of CCAH shares. Copies of the letter sent to Kamal Adham were given to the Board staff as a sample. See Attachment B. Mr. Altman reported that we had received a response from Adham (confirming BCCI had not financed the acquisition), that we were expecting more responses, and that we would be happy to provide the Board staff with such letters when they are received.

There was then discussion regarding the regulatory implications of possible BCCI loans to the shareholders (subsequent to the original acquisition) that may be secured by a pledge of CCAH shares. Mr. Altman pointed out that he had no concrete information, but had heard reports of loans by BCCI to certain shareholders in amounts ranging from \$400 million to over \$1 billion. He did not know how accurate these reports were, or what would be the purpose of any such loans. Mr. Altman further indicated that an informal, off-the-record inquiry had been made of Price Waterhouse who advised that there were loans to shareholders that appeared to be properly documented. However, Mr. Altman said he did not get any specific information. We did understand assets were securing

- 5 -

such loans and believed the collateral was CCAH stock in some instances. (We also noted that there were no CCAH bearer shares, and that there was no formal pledge of stock recorded on the books of CCAH.) Finally, Mr. Altman indicated his understanding that the shareholders from Abu Dhabi have never borrowed from BCCI or any other bank. We emphasized again that this information could not be entirely reliable; it was only what we had heard. In this regard, we stated that the shareholders have never advised us of their financial dealings after the acquisition was completed in 1982.

Mr. Kline expressed some interest in BCCI loans, noting that Mr. Naqvi's letter appears worded not to make representations about post-acquisition lending against CCAH shares. We agreed that Mr. Naqvi advises such loans have been made, though no security for the loans is detailed. Mr. Tuttle suggested that, even assuming that there were significant borrowings against CCAH stock by First American shareholders, the key regulatory issue is only whether BCCI is in some way exercising a controlling influence over First American. There is no legal or regulatory prohibition against borrowing from BCCI, a view apparently shared by the staff. As to this basic control issue, there can be no question that the current U.S. management of First American runs the operation and establishes and implements the Company's policies and programs. This has been the case from the beginning and has been broadly acknowledged by regulators themselves, including in the recent examination

by the Richmond Fed in connection with its review of the application to retain ownership of the Bank of Escambia, N.A. It has also been observed by state banking officials such as Commissioner Bailey in Virginia. Mr. Altman invited the Federal Reserve to audit the Company or talk to any First American senior officer if there were any questions at all on this point.

Mr. Ryback concurred in this view, and emphasized that his limited concern was only to inquire as to any BCCI financing of the original acquisition in view of information supplied him by foreign supervisory authorities. We agreed again to get permission from Mr. Naqvi to release the BCCI letter.

Following this discussion, Mr. Altman took the opportunity to advise the Board staff as to further developments regarding any possible sale or merger of First American, as well as the possible purchase by Sheikh Zaid of some small amount -- 8 percent or 10 percent -- of CCAH stock. He emphasized that such matters were still uncertain -- that no final decisions had been reached, but that he wanted the Board staff to know that such subjects were under consideration. Mr. Altman noted that the Company had received expressions of merger interest from a number of southeast regional banks which we were considering and there was some indication of interest by the Government of Kuwait (although the degree of such interest had not been made clear). Another possibility

- 7 -

is that Abu Dhabi might seek to acquire the Company. Mr. Ryback lightly noted that the deals involving a southeast bank or Kuwait were preferable, given recent developments with Abu Dhabi's acquiring control of BCCI.

The meeting lasted approximately 45 minutes. It was emphasized by Mr. Altman and Mr. Tuttle that good relations with the Board were of paramount importance and that if the staff had any concerns or questions they should immediately contact us. We would endeavor to secure any information they wished to obtain.

Robert A. Altman
Baldwin B. Tuttle
J. Griffin Lasher

Attachments
.....



FIRST AMERICAN BANKSHARES, INC.

CLARK M. CLIFFORD
Chairman of the Board

October 10, 1989

PRIVILEGED & CONFIDENTIAL

H.H. Sheikh Humaid bin Rashid al Naomi
Ajman, U.A.E.

Your Highness:

In recent months, there has been increased merger and acquisition activity among large regional banks in the Southeast region of the United States. The markets served by First American Bankshares' network of banks are within this important geographical area. Such interest has generally resulted from the view now held by many banking institutions that they must become larger in size and scope to compete successfully in banking in the coming years.

In this regard, we have been approached by the management of a large banking organization called Barnett Banks, Inc. to discuss their interest in a possible merger or acquisition arrangement with First American. Barnett is a \$27 billion, publicly held banking institution headquartered in Florida and is the largest bank holding company in that state. We have reason to believe that there may be other, large regional banks interested in a similar combination with First American.

In order to meet our fiduciary obligations to each of the shareholders of Credit and Commerce American Holdings, N.V. (CCAH) and to protect and promote this important investment in First American, we have undertaken a serious study and evaluation of the matter. We have retained the services of Goldman, Sachs & Co., perhaps the finest investment banking firm in the United States specializing in bank acquisitions and mergers. Goldman, Sachs has been asked to evaluate the express interest of Barnett Banks as well as other possible candidates. To inform you of the efforts by Goldman, Sachs, we enclose a copy of their letter to us setting forth their preliminary assessment of the Company and their proposed program.

1511 / 11/15/14

TESTIMONY - August 8 15

1 First American?

2 Mr. Rahman: Well, it was one of the easier things to
3 conclude in view of the lack of paper, and once we had made
4 that recommendation that we unwind that forthwith, and we were
5 informed that indeed Goldman, Sachs had been appointed to try
6 and find evaluation and a buyer.

7 Senator Kerry: When was that appointment made?

8 Mr. Rahman: I think late in '89.

9 Senator Kerry: Now, with respect to the First American
10 shares, was there some talk of a reverse divestiture in that
11 First American might somehow think of buying out BCCI?

12 Mr. Rahman: I don't think it was seriously discussed as
13 strategy, but in passing people -- you know, Mr. Naqvi
14 mentioned, well, that perhaps it will be better if they buy
15 us.

16 Senator Kerry: What was the purpose of that, to clear up
17 the ownership issue?

18 Mr. Rahman: Yes, to clear up the ownership issue. It
19 would mean that the whole of the BCC group would then have a
20 home in America, effectively, instead of Luxembourg.

21 Senator Kerry: Now, what was the second area of inquiry?

22 Mr. Rahman: The second one was in relation to this bank
23 within a bank. That was a very, very serious case in the
24 sense that first it shocked me that an ICIC foundation which
25 was supposed to be our savings and our shareholding in the

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WASHINGTON, D.C. 20005
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1 situation of UK. They had a \$4 billion balance sheet, for
2 which only 40 percent was in advances; 60 percent was liquid.

3 Senator Kerry: 60 percent was liquid?

4 Mr. Rahman: It was liquid funds, and they closed the
5 whole bank. It is unbelievable that the Bank of England
6 should --

7 Senator Kerry: But did they not close the bank because
8 of the fraud? I mean this was not a decision based
9 exclusively on liquidity, et cetera.

10 Mr. Rahman: Sir, I think that in banking terms, you
11 close the people. You do not close the bank.

12 Senator Kerry: Well, this is the judgment, obviously,
13 which people are going to have to take a look at.

14 Mr. Rahman: It will come out that even in UK, you will
15 have the same people, the same names coming up again. And not
16 the 2,500 people who work there, or the 300,000 clients who
17 have suffered over there.

18 Senator Kerry: Let me just take one minute here.

19 [Pause.]

20 Senator Kerry: Let me go back to one thing that you
21 raised earlier that may have piqued some people's curiosity.

22 Back in 1990, when you discovered these problems, you
23 mentioned to me that a number of large investment houses were
24 contacted regarding the sale of First American shares. Is
25 that accurate?

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Mr. Rahman: Well, Goldman-Sachs was supposed to try to locate a potential buyer.

Senator Kerry: A potential buyer for?

Mr. Rahman: First American.

5 Senator Kerry: First American -- so they were suppose
6 to find a buyer for a bank owned by a foreign bank, selling
7 the American bank which was not legally held at the time, or
8 legally owned by the foreign bank. Is that correct?

9 Mr. Rahman: Yes.

10 Senator Kerry: Did they know that? Were they notified
11 of that?

12 Mr. Rahman: I think they were asked on behalf of the
13 shareholders.

14 Senator Kerry: Well, were they told that?

15 Mr. Rahman: No, I think that they were told that it is
16 on behalf of Kamal Adham and other shareholders.

17 Senator Kerry: That they simply want to sell some
18 shares?

19 Mr. Rahman: Sell, I think maybe sell some shares. I do
20 not know whether the whole bank or some shares.

21 Senator Kerry: So you do not know what the story is with
22 respect to that?

23 Mr. Rahman: But that is what was informed to the
24 committed.

25 Senator Kerry: Did BCCI entertain lavishly? Did it

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Charlotte, NC 28255
Telephone 704/374-5883

NCNB

Hugh L. McColl, Jr.
Chairman of the Board

May 3, 1990

Mr. Clark M. Clifford
Chairman of the Board
First American Bankshares, Inc.
First American Bank Building
15th and M Streets, N.W.
Washington, D.C. 20005

Dear Mr. Clifford:

At your request, we are pleased to convey in this letter our interest in pursuing a transaction with First American Bankshares, Inc. ("FAB") in the form of a merger or acquisition or other mutually agreeable format. As a condition to providing this letter of interest, we request that you treat the contents and existence of this letter as confidential, and disclose such contents and their existence only to Goldman, Sachs & Company, and to those of your employees and agents who are working on the matter. On advice of counsel, we do not believe this letter triggers a reportable event for either party, but should you believe otherwise we would wish to discuss this with you or your counsel. Our proposal contemplates the acquisition of all outstanding shares of FAB common stock in exchange for a combination of our common stock and cash or other securities, which will provide FAB shareholders the ability to continue to reap the benefits of their investment in FAB through the continued earnings growth of the combined entity.

As we have discussed, we have not yet had the opportunity to finalize our evaluation of FAB by means of a complete due diligence review and verification of its current financial position and earnings potential, operations, loan portfolio, personnel or other factors or the structure of this transaction and would look forward to discussing our views as we proceed forward. Although we are concerned over the trends in the first quarter earnings and loan quality, we believe that a detailed due diligence investigation should determine whether these are temporary declines or represent a trend. Based on the financial information provided to us, our preliminary valuation is approximately \$1 billion. This preliminary value represents approximately 12 times your projected 1990 earnings and approximately 1.5 times tangible book value. To the extent that assets or entities other than FAB are to be purchased or excluded as part of this transaction, this valuation will be adjusted accordingly. In addition, this proposal is dependent upon the resolution of a number of issues, including but not limited to those outlined below:

1663

FD 00639

- (i) satisfactory completion of normal business and legal due diligence by both you and us (with particular emphasis on current and future earnings power);
- (ii) negotiation and completion of a definitive purchase agreement including receipt of satisfactory representations and warranties;
- (iii) Board of Director and shareholder approvals and unconditional approvals by federal and state regulators without conditions that are unsatisfactory to either party; and
- (iv) other usual and reasonable conditions which might arise out of additional due diligence or disclosures by F&B or its management.

We are prepared to begin due diligence promptly and once begun, expect this work can be completed within a time period of approximately thirty days. Immediately upon achieving mutually satisfactory results from due diligence, we would expect to begin the negotiation of a definitive agreement. As conditions to our proceeding with this process, we will expect you and your agents to:

- (i) execute a confidentiality agreement with us;
- (ii) complete your due diligence on the value of our company concurrently with our due diligence review of F&B; and
- (iii) provide us with a list of shareholders along with their respective percentage ownership positions in order to assess the pro forma ownership of the combined entity.

It is expected that approvals from regulatory agencies, Boards of Directors and shareholders would also have to be accomplished to consummate this transaction, and a suitable timetable set.

We believe that our proposal would be fair and most generous to the shareholders of F&B and hope that this letter conveys an adequate expression of our interest and commitment to further pursuing a transaction.

In conclusion, we believe the participation of your shareholders and employees in the combined entity represents a truly unique long-term opportunity. We would appreciate a response from you no later than May 10, 1990, so that both you and we can proceed with due diligence.

Sincerely,


Hugh M. McCell, Jr.

1660

FD 00640

Goldman, Sachs & Co. 1 65 Broad Street | New York, New York 10004
Tel. 212-902-5583

J. Christopher Flowers
Partner

Goldman
Sachs

PERSONAL AND CONFIDENTIAL

May 10, 1990

Mr. Robert A. Altman
Clifford & Warnke
815 Connecticut Avenue
Washington, D.C. 20006

Dear Mr. Altman:

We are writing this letter to review with you the status of Project Constitution. We understand that you may forward this letter to the shareholders of First American Bankshares, Inc. (the "Company") and certain of their financial advisors.

In July 1989, you asked us to review various alternatives to accomplish the long-term profit and growth objectives of the Company's shareholders and management. In this regard, we examined an initial public offering of the Company, joint venture opportunities for the Company and the sale of the Company. In examining such alternatives, we analyzed the Company extensively and made certain comparisons of the Company to its peers.

After such analysis, you instructed us to focus on possible business combinations to maximize the value of the shareholders' investment. The nature and breadth of the Company's franchise, as well as certain regulatory restrictions, led us to focus our efforts principally on large, well-managed banks in the Southeastern United States.

To ascertain the effect of the Company's combination with these firms, we prepared pro forma analyses illustrating the impact on the Company's earnings and shareholders' equity and the ownership position the Company's shareholders would hold in the potential combined entities. Because it is most likely that the Company would achieve the highest value for its franchise by accepting the stock of a potential merger partner, we also provided extensive analysis on the expected future stock price performance of certain potential partners.

After reviewing such analysis, you authorized us to approach six banks: Barnett Banks, Inc., First Union Corporation, First Wachovia Corporation, MNC Financial, Inc., NCNB Corporation and SunTrust Banks, Inc. The Southeastern banking market has been one of the most dynamic in the United States and, despite recent difficulties, its prospects are considered excellent.

Most of these institutions demonstrated a high degree of initial interest in the Company's unique franchise. However, a slowing economy and overbuilt real estate markets have reduced the stock prices, and to a lesser extent the earnings, of the six firms. All but one of these institutions have

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FD-00641

Goldman
Sachs

Mr. Robert A. Altman
May 10, 1990
Page Two

elect not to pursue a transaction at this time. Despite the fact that Barnett Banks, Inc. did not submit a proposal, however, we believe that it is still possible that they will be a bidder.

One of the most interested parties, NCNB Corporation ("NCNB"), submitted a preliminary proposal to pursue a merger with the Company and indicated that its preliminary valuation is approximately \$1 billion. After signing a confidentiality agreement and prior to submitting its proposal, NCNB was allowed to review the confidential memorandum prepared by ourselves with the assistance of Company personnel and other confidential reports prepared by the Company. However, the management of NCNB has not met with the Company's management nor has it had the opportunity to conduct in-depth on-site due diligence. The preliminary proposal and valuation are tentative and subject to the completion of further due diligence by NCNB on the Company, the negotiation of a satisfactory merger agreement and regulatory approvals. The Company, assisted by us, would perform due diligence on NCNB as well.

NCNB's proposal offers to acquire all the Company's common stock in exchange for a combination of NCNB common stock and cash or other securities. Though the wording of the proposal is ambiguous, we believe, based on conversations with NCNB senior management and their financial advisors, that NCNB's final proposal will contain a significant amount of common stock and possibly be all common stock.

Assuming the current NCNB stock price of \$38.75 per share and an all stock transaction, \$1 billion would translate into 25,806,452 shares of NCNB's common stock. If the shareholders of the Company were to exchange their shares for such an amount of newly issued NCNB shares, the shareholders would own, collectively, approximately 20.3% of NCNB common stock.

We believe that NCNB's preliminary valuation is an attractive level and merits careful consideration. The valuation is approximately 1.2x stated book value and 1.5x tangible book value as of year-end 1989 and represents a multiple of 15.0 times 1989 earnings. As you know, the preferred currency for large bank merger transactions in this environment is all common stock versus all cash or a package of securities.

Since we first began discussions on this matter in the summer of 1989, the prices of many bank stocks, including NCNB, have declined significantly. For example, the 25,806,452 shares of NCNB worth \$1 billion today would have been worth nearly \$1.3 billion in July 1989 when NCNB's stock was \$50 per share. A \$1.3 billion dollar valuation is approximately 1.5x stated book value and 1.9x tangible book value and represents a multiple of 19.5 times 1989 earnings.

Despite the decline in NCNB's stock price, we remain positive on NCNB and its stock. NCNB's price decline since summer is not out of line with the stock price performance of other Southeastern banks and, in addition, the decline is likely to result in the Company receiving a greater number of shares in a potential transaction than it would receive if a transaction occurred when NCNB's stock price was higher. Finally, we believe that NCNB's stock should perform well in the future and it is

1671

FD-00642

Goldman
Sachs

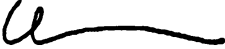
Mr. Robert A. Altman
May 10, 1990
Page Three

recommended for purchase by our bank industry research analysts. We have included our research analysts most recent reports on NCNB and Barnett.

We believe that the best course for the Company probably is to pursue these merger discussions with NCNB and Barnett. Delaying the process risks losing the interest of NCNB. As noted above, it may be that the depressed stock prices of NCNB and Barnett may enable the Company's shareholders to receive more shares; put another way, we think that it is better to bargain for shares when they are cheap. In addition, moving forward now brings the Company's shareholders closer to an opportunity to realize substantial benefits such as cost savings and dividend payments through a combination.

We hope you find this review helpful. If you have any questions, please do not hesitate to call.

Sincerely,



J. Christopher Flowers

1672

FD 00643

First American Courted for Merger

NCNB Is Among Banking Firms Making Acquisition Overtures

By Joel Glenn Brenner
and Jim McGee
Washington Post Staff Writers

North Carolina banking giant NCNB Corp., which has long been looking to expand its reach into the Washington area, recently made overtures to First American Bankshares, parent firm of First American Banks of Virginia, Maryland and D.C.

First American Chairman Clark M. Clifford yesterday confirmed that NCNB and several other banks have approached him to discuss possible mergers. But he said that the Arab shareholders who control First Amer-

ican "have not shown any interest" in those inquiries and "the bank is not for sale."

However, other sources familiar with the bank's operations said they believe First American would be available for sale if the right offer came along.

NCNB spokesman Dick Stillely declined to comment on a possible merger between NCNB and First American, but he reiterated that the Washington market "is one of great interest."

The interest in First American follows a wave of bank mergers along the East Coast, which climaxed last

year with the announcement of a merger between Sovran Financial Corp. and Citizens & Southern Corp. that will form the largest regional bank holding company in the nation.

Clifford said the Sovran-C&S deal prompted a number of phone calls between bankers, including calls to First American. Robert Altman, president of First American Corp., also said that recent financial trouble at Perpetual Savings Bank, the largest thrift in the Washington area, has set regional banks on edge and prompted further interest in mergers and acquisitions.

First American's financial health is See **FIRST AMERICAN**, D5, Col. 1

NCNB Makes Overtures for First American

FIRST AMERICAN, From D1

suffering, with earnings down sharply last year to \$66.7 million from \$80.2 million in 1988. Analysts said the bank's return on assets has been low and the bank also has been spending millions of dollars on new technology, which has hurt the bottom line.

Arnold Danielson, president of Danielson Associates Inc., a local bank consulting firm, said the combination of depressed earnings and recent controversy make First American "extremely attractive" to potential buyers, who might sense they could buy the bank for a bargain price.

The bank recently was the subject of articles in *Regardie's* and the *Wall Street Journal* that raised questions about the overlapping ownership interests of First American and the Bank of Credit and Commerce International, which recently pleaded guilty to money laundering charges and is suffering massive losses.

Danielson said First American is one of the three best franchises in Washington, following Sovran and MNC Financial Corp., parent of Maryland National Bank and American Security. "If I wanted to buy anyone in this area, that would be the one," he said.

WJF
6-5-90

100 LEADENHALL STREET LONDON EC3A 3AD

DATE July 30th, 1990.

FROM MR. J.D. VAN OENEN

TO: MR. S. NAQVI

C.C. MR. ZAFAR IQBAL

SUBJECT: CCAH

Enclosure B outlines a series of alternative solutions. From the information so far obtained, it is apparent that there are many problems of which we were not fully aware. The main difficulties revolve around the restrictions on interstate banking, those on foreign ownership in Virginia and Florida, the 'Home-State' and deposit-limitations and, finally, the status of the New York operation.

To complete the survey, and to pursue the matter further, I need the following:-

1. A list of preferred options, in order of priority, so as to save time, money and effort.
2. A modest but adequate budget to obtain legal, taxation and other professional help, and to cover out of pocket expenses such as travel.
3. Information on the status of the discussions between CCAH and Goldman Sachs, and what further action is presently being taken by them (or us), if any.
4. An assurance to maintain complete confidentiality in and outside the organisation (including CCAH and Goldman Sachs at this stage). There should be no discussions with outside institutions without prior liaison with me.

5461

Cautionary
Even if the regulatory climate changes sooner than expected, the legal complexities and the general economic and banking conditions could still cause delays. For an early 'optimum' solution we must therefore be prepared to go through an interim

FD. 00649

stage which will require some help from the shareholders.
The financial consequences of carrying 70% of these loans
have been worked out in Enclosure A. They show that we may
already be a further \$60/70 million in deficit for the year
1990. Urgency is therefore of the utmost importance, without,
however, creating the impression of a 'distress' sale.

*See 4
for memo*

Until now the approach remains one of eliciting offers,
more particularly through the sale of the outstanding loans,
 although I doubt whether Goldman Sachs has worked on this
 basis. I have made two foreign contacts but this may have to
 be widened further to a maximum of five or six institutions,
 all on a discreet and personal basis.

John A. ...

5467

FD 00650

Encl. A

Valuation/Carrying cost

The following very rough calculation may serve to put the situation into perspective. It illustrates the cost of carrying these loans as it would appear to an outside financing institution.

Book Value on 31/12/1989		\$ 856.8 million
Circa <u>70%</u> in the form of loans	61%.	\$ 600.- million
Advance equalling a security value of 2.475 (2.75 x book less 10%)		\$1485.- million

Loan Funding cost	Est..	9.00% p.a.	
Blocked capital cost (8% of asset)	Est.	0.72% p.a.	
		9.72% p.a.	\$145.- million

1989 Net earnings \$55 million (after tax)		
.. of which 70%		\$ 39. million

<u>Annual deficit</u>		<u>\$106 million</u>
-----------------------	--	----------------------

Note

Tax aspects which because of the Netherlands Antilles structure can be of major importance have been left out of account. Also the interest on interest factor as profits are not distributed.

5466

PD 00651

Based on present interest rates and profit performance, this means that the security value - in the absence of any loan interest and fee income - would have to increase by at least 0.175 x book per year to reach break-even point. In other words the advance valuation would have to go up from 2.475 x to something like 3 x book if the CCAH profits do not improve dramatically and loan conversion takes more than two years. This means that until then the loans require an annual subsidy of at least \$100 million without even counting an adequate return on the loan assets.

- 5467

FD 00652

Note: Items marked * need further enquiry

CCAH

*a. if only
in Cal.*

Legal changes to lift the current interstate bank barriers are under very active consideration by the U.S. Treasury and State authorities. Reciprocity between New York and California, for instance, has already been agreed upon and will be introduced in 1991*. Many institutions believe that country-wide restrictions on banking and on financial services will be removed by 1993*. This vastly increases the number of potential buyers - both domestic and foreign - and perhaps the sale-value of the banking Group, particularly if non-bank institutions* *in
and
with them* would also be permitted to engage in banking business. Already there are clear signs of moves and arrangements, especially on the part of the large money-centre banks, to become more closely associated with out-of-state regional banking institutions.

For the present, we still have to base ourselves on the existing laws, which leaves us with four alternatives:-

I. 'Internal' solution

- on future
law on things*
- a. Although this option is now closed to BCC, an ownership solution - even if temporary - could be of interest to our shareholders (ADIA) as a potentially profitable investment. Current restrictions would nevertheless require a stop-gap solution involving share acquisition

5468

Ad. 00653

(below 25%) on a personal basis. This needs further study as the authorities do not permit related ownership situations. To what extent ADIA could act as one of the shareholders (below 25%) would also need investigation*.

- b. Another route would be for ADIA, if this is possible,* wholly or partially, to take over the role of the financing institution, call the loans, at a time of their choosing, take possession of the security and thus gain two years breathing space to dispose of it. In the interval, unless BCC compensates for the difference, ADIA would bear the interest cost which would only be partially off-set by the increase in the CCAH bookvalue (see Encl. A). One problem is that calling all loans simultaneously may give rise to suspicion and accusation of having exercised unauthorized control (section O).

- c. To buy time, and to allow the BCC balance sheet to be slimmed down, the loans could be 'garaged' with one or more other institutions:

1. On a re-purchase basis. This would move the assets from above to below the line, but this would not help us in our capital-ratio requirement* apart from having to find a 'willing' institution to assist without substantial guarantees or margins. It also does not solve BCC's regulatory and external auditors (provision) problems.

5460

FD.00654

2. As an outright sale. Unless there are other considerations (see II and III below), the risk factor will require a strong degree of 'comfort' to the buying institution, as they will assess the transaction on book value. It will almost certainly have to be in the form of a (partial) guarantee from our shareholders.

Outright
Sale
Guarantee?
Share?

A transaction along these lines would also raise fee -, capital ratio -, and funding considerations for the lending institution, the cost of which, to some extent, would be influenced by their interest in a (potential) relationship with our shareholders as well as their own investment intentions. There are several ways to compensate for the 'cost' factor, such as funding on favourable terms (although there could be some conflict here under present U.S. law*), and providing partial capital support through the purchase of subordinated capital notes. Whatever form it takes we must accept that a loan - financing solution would be very expensive (see Encl. A), although, on the other hand, it would help to spread the impact over a number of years, i.e. until CCAH is sold.

Funding
considerations

One of the consequences of delaying action is the danger of impeding CCAH's natural growth. Retention of earnings may not be sufficient, and it is therefore necessary to make a study* of the Holding Company's capital requirements over the next three or four years, including determining the extent rights issues, if any.

Capital

5470

FD 00655

16

FSA FIRST AMERICAN BANKSHARES, INC.

CLARK M. CLIFFORD
Chairman of the Board

M E M O R A N D U M

To: Shareholders of Credit and Commerce American Holdings, N.V.
From: Clark M. Clifford *CWC*
Date: November 2, 1990
RE: Capital Requirements - First American Bankshares, Inc.

I am enclosing a letter received today from Arthur Anderson & Company, First American Bankshares' independent auditors, confirming that the Company needs \$125,000,000 of additional equity capital for 1991, with an immediate advance of \$30,000,000 before the end of November.

The additional capital is intended to protect the shareholders' investment during the economic downturn now being experienced throughout the banking industry in the United States. The capital call thus reflects discussions with federal bank regulators and our financial team.

The requested funds would protect the enormous value that has been created in First American during the past eight years. As you will recall, we received an opening bid of one billion dollars for First American less than 6 months ago, and we no doubt could have negotiated a substantially higher price had the shareholders directed us to do so. For reasons earlier provided, we are requesting additional capital immediately to safeguard your investment.

Mr. Robert Altman and I will be pleased to provide you any other information you may request, and stand ready to meet at any time if you feel that would be helpful to you.



FIRST AMERICAN BANKSHARES, INC.

12

CLARK M. CLIFFORD
Chairman of the Board

MEMORANDUM

To: Shareholders of Credit and Commerce American Holdings, N.V.
From: Clark M. Clifford *UNC*
Date: November 8, 1990
Re: Special Board Meeting with Federal Bank Regulatory Authorities

This memorandum is written to advise you that a special meeting of the Board of Directors of First American Bankshares and its U.S. parent, First American Corporation, was held on Tuesday, November 6, at the request of the Federal Reserve Board. In addition to representatives of the Federal Reserve, the meeting was attended by staff members of the Office of Comptroller of the Currency and the Federal Deposit Insurance Corporation. The purpose of the meeting was to discuss the regulatory examinations of First American and its subsidiary banks.

During the course of this important meeting, the regulatory agencies focused on our efforts to obtain additional capital for First American from the shareholders. It was emphasized to the Directors that bank shareholders are expected to be a source of financial strength to the organization and that the current economic environment made capital investments mandatory now for First American (and for our competitors). We responded that the matter of additional capital was under consideration in the Middle East and we would report to the regulators as soon as decisions were reached. We were asked to convey to the shareholders the importance of addressing this matter at their earliest convenience.

In this regard, certain First American shareholders recently inquired about the ability to revive discussions we had last Spring with other major banks regarding the sale or

15th and H Streets NW Washington, DC 20005 (202) 383-1400

1659

FD-00630

merger of First American. As you recall, our shareholders did not wish to pursue such a transaction at that time. Current market conditions, however, make any such deal impossible at present. Such a transaction would necessarily involve payment with marketable stock, not cash. In this regard, I attach for your information a chart which reveals the sharp decline in market value of bank stocks during the past year. Such shares now trade at a fraction of book value when a short while ago they were trading at multiples of 1.5 to 2 times book (for non-control blocks). Thus, market conditions, as well as regulatory factors, preclude a deal going forward now.

You, of course, will understand that the very substantial, inherent value of this unique franchise remains despite the inability to consummate a merger or sale under present market conditions. It is noted that the total shareholder cash investment in First American to date is approximately \$600 million, and, of that amount, approximately one-third was invested only in the last few years. Yet, less than six months ago, we had an opening offer from a major U.S. bank to acquire First American in a transaction which would likely have more than doubled the amount the shareholders have invested to date. And, we believe it is possible to enhance further the return on our shareholders' investment.

We are confident that the market value of this Company can be realized when the market strengthens and we urge favorable consideration of senior management's proposal for additional capital to protect the enormous value of this franchise that has been created for shareholders. We remain available to meet with you or to answer any questions you may have about these matters.

Attachment

1660

FD 00631

CABLE CLINEY
TELEX 248558 CLEY

TELEPHONE
202 828-4200

Clifford & Warnke
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D. C. 20006

ROBERT A. ALTMAN

DIRECT LINE 1202 828-4235

September 7, 1988

HAND DELIVERED

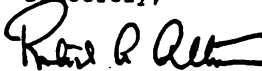
Jack Blum, Esq.
Special Counsel
Committee on Foreign Relations
449 Dirksen Senate Office Bldg.
Washington, D. C. 20515

Dear Mr. Blum:

This is to confirm that we will meet at your office on Friday, September 9, 1988 at 2:30 p.m. to discuss preliminarily the matters relating to the subpoenas served upon the Bank of Credit and Commerce International (Overseas) Ltd. and two of its employees. This shall further confirm our understanding that a second meeting will be held on Wednesday, September 14, 1988 at your office, at which time we shall make partial production of documents in this matter, and discuss how you would like your investigation to proceed.

If there are any changes in this schedule, please let me know.

Sincerely,



Robert A. Altman

CABLE CLINEY
TELEX 248586 CLEY

TELEPHONE
(202) 828-4200

*Clifford & Warnke
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D.C. 20006*

ROBERT A. ALTMAN

September 14, 1988

DIRECT LINE (202) 828-4233

Jack A. Blum, Esquire
Special Counsel
Committee on Foreign Relations
United States Senate
Washington, D.C. 20510

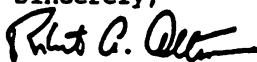
Dear Mr. Blum:

Enclosed herewith are the documents being produced pursuant to our understanding concerning the subpoenas issued to the Florida offices of Bank of Credit and Commerce International (Overseas), Limited ("BCCI") and to Mr. S.M. Shafi and Mr. Amjad Awan. Certain of the documents being made available for your review are confidential and must be protected from public disclosure by adequate safeguards to be mutually agreed upon.

You are advised that in making the production of these documents neither BCCI nor the individuals referenced above waive any rights or privileges relating thereto, all of which are expressly reserved.

It is understood that you will today review these documents in our presence and we shall then agree upon the manner in which they are to be reproduced and delivered to the custody of the Committee.

Sincerely,



Robert A. Altman

September 14, 1988

Attorney-Client Work Product
Privileged and Confidential

INDEX OF BCCI DOCUMENTS

Vol. I. Annual Reports and Financial Statements

1. BCCI Annual Report 1987.
2. Financial Statement Panama.
3. Annual Reports Colombia.

Vol. II. Records of Depositors and Borrowers

1. Miami Agency:
 - (a) list of Panamanian or Colombian depositors;
 - (b) list of Colombian depositors with deposits in excess of \$5 million;
 - (c) list of Colombian borrowers with a limit in excess of \$5 million;
 - (d) Panamanian depositors or borrowers with balances in excess of \$5 million.
2. Boca Raton and Tampa Agencies:
 - (a) list of Panamanian or Colombian depositors;
 - (b) Panamanian or Colombian depositors or borrowers with balances in excess of \$5 million.

Vol. III. Internal BCCI Memoranda and Florida Licenses

1. Compliance Circular: Caribbean Regional Office.
2. Minutes of Management Committee Meeting.
3. Florida Licenses.

- 2 -

Vol. IV. Shafi Documents

1. Business Expenses.
2. Compensation Records.
3. Travel Diaries.
4. Office Telephone Bills.
5. Residence Telephone Bills.
6. Car Telephone Bills.

Vol. V. Awan Documents

1. Business Expenses and Travel Records.
2. Compensation Records.
3. Telephone Bills.

{ We cannot find
them in W. G. G. G.
and G. G. G. G.

CABLE CLINEY
TELEX 240550 CLEY

TELEPHONE
1202 878-2200

*Clifford & Warnke
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D.C. 20006*

September 19, 1988

BY HAND

Jack A. Blum, Esquire
Special Counsel
Committee on Foreign Relations
United States Senate
446 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Blum:

As discussed during the meeting on September 14, 1988 that Messrs. Altman, Sanders and I attended at your office, and as I later mentioned to Kathleen Smith in a telephone conversation, we are forwarding herewith copies of the documents earlier produced under various specifications of the subpoenas issued to the Florida offices of Bank of Credit and Commerce International (Overseas), Limited ("BCCI") and to Mr. S.M. Shafi. As you are aware, we are to schedule within the next several days a more extended period of time during which you can review the records from BCCI's Agency Offices in Miami, Boca Raton and Tampa. We have requested of the Bank that it provide us with computer print-outs of the same type of information for additional periods which you reviewed when we were at your office. Those print-outs should be here this week, and we understand you will examine this material together with that which you have already seen at a date to be agreed upon.

Specifically, the copies being forwarded today include:

- (1) The compliance circular from the Caribbean regional office of BCCI and portions of the minutes of a Management Committee meeting of BCCI, both of which you reviewed on September 14, 1988.

Letter to Jack A. Blum, Esquire
September 19, 1988
Page Two

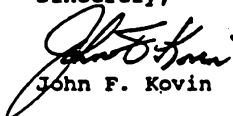
- (2) Various documents relating to Mr. S.M. Shafi including business expense records and travel diaries. You may again decide to examine Mr. Shafi's office telephone bills, residence telephone bills and car telephone bills at a subsequent date to determine whether they should be photocopied.
- (3) A document styled, "Statement of Affairs" for BCCI Panama for the period ending June 30, 1988.

It is our understanding that having reviewed Mr. Shafi's records of compensation, you do not need copies of those materials. Further, the documents to be produced by Mr. Amjad Awan are due on or before September 22, 1988. We were called on Friday, September 16, by John Grabow of Ginsburg, Feldman and Bress, who has been retained by Mr. Awan. We shall await a meeting with him before proceeding on any documents that relate to Mr. Awan because we do not know whether Mr. Grabow intends interposing any objections to the Subcommittee's subpoena.

Finally, we must reiterate the points raised with you during our meeting and in Mr. Altman's letter of September 14 regarding the confidentiality of this material. It is our understanding that the materials which are being provided herewith shall be accorded confidential treatment by you and your staff. Before we can provide additional confidential information to be retained by the Committee, we will require written assurance that acceptable confidential treatment has been approved by the Committee and will be provided.

We will be in touch again by telephone regarding the other scheduling matters yet to be worked out.

Sincerely,


John F. Kavin

Enclosures

United States Senate
WASHINGTON, DC 20510

TELECOPY TRANSMITTAL FORM

Date: JULY 7 1989

Send to: Mr. Clark Clifford

CLIFFORD AND WARNKE

From: SENATOR JOHN KERRY

Office of Senator John Kerry

Receiving Telecopy number: 202 659 0065

Sending Telecopy number for response is (202) 224-8525

To confirm receipt of telecopy call (202) 224-2742

Number of pages being sent, including cover 7

CLARENCE FELL, CHIEF CLERK, CHAIRMAN
 JOSEPH E. BOWEN, JR., DELAWARE
 DALE E. BARNARD, MARYLAND
 ALAN BRANTON, CALIFORNIA
 CHRISTOPHER J. BOSS, CONNECTICUT
 JOHN F. CLEGG, MASSACHUSETTS
 PAUL BARON, ALABAMA
 TERRY CARPENTER, NORTH CAROLINA
 CAROL J. MORTIMER, NEW YORK
 CHARLES E. MOORE, VIRGINIA
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 RICHARD S. LUGAR, INDIANA
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 CONNOR BAKER, FLORIDA
 CAROL E. CHRISTENSEN, STAFF DIRECTOR
 JAMES P. LUCAS, SENIORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON FOREIGN RELATIONS
 WASHINGTON, DC 20510-6228

July 7, 1989

Clark Clifford
 Clifford and Warnke
 815 Connecticut Avenue NW
 Washington DC

Re: Bank of Commerce and Credit, International

Dear Mr. Clifford:

As you may recall, we met on September 26, 1988 at my office to discuss BCCI's response to the issuance of a subpoena by the Foreign Relations Committee issued July 27, 1988 for documents from the Bank of Commerce and Credit International in connection with an investigation by the Subcommittee on Terrorism, Narcotics and International Operations into narcotics trafficking, money laundering, law enforcement and foreign policy.

At the time, you advised the Subcommittee that you were aware of no documents regarding General Noriega which were under the possession or control of BCCI, apart from the small number turned over to the Subcommittee by Amjad Avan, and agreed that if any such documents existed, they would be turned over to the Subcommittee in accordance with the subpoena.

Recently, the Subcommittee has learned that a number of documents under the control of BCCI and responsive to the subpoena were not turned over to the Subcommittee pursuant to the Committee subpoena. These documents included records relating to as many as seven accounts at BCCI controlled by Noriega.

According to a recent broadcast on NBC Nightly News, documents from BCCI seized by British authorities and since turned over to the US show that Noriega deposited at least 50 million dollars since he opened the account at BCCI in early 1982. The NBC broadcast also alleged that the BCCI documents found included a letter from General Noriega to Mr. Avan.

According to NBC, the letter from Noriega to Awan instructed Awan to keep the accounts secret and ordered that no bank statements ever be sent to Noriega in Panama.

I have no doubt that you were unaware of the existence of these documents at the time we met. In fact, I recall that you gave me the assurance that they would be provided the Subcommittee should they located. It is now clear that the documents referred to by NBC came within the clear ambit of the subpoena to BCCI, and that they were not delivered to the Subcommittee as provided by the subpoena.

Accordingly, I formally request that in your capacity as attorney for BCCI that you take as rapidly as possible the necessary steps to secure all additional documents responsive to the original subpoena to BCCI from the Foreign Relations Committee regarding or relating to Noriega's relationship with BCCI, including but not limited to those documents referred to in the NBC broadcast.

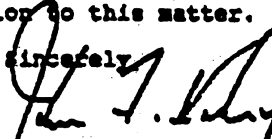
In light of the fact that at least some of these documents are apparently already in the possession of other government agencies, I would appreciate prompt production of the documents, with delivery to take place by the close of business July 19, 1989.

The Subcommittee will be holding further hearings on narcotics matters later this month, and may wish to invite BCCI by its officers or attorneys to testify regarding the involvement of BCCI in handling General Noriega's accounts. In the event that no documents are produced, the Subcommittee will wish to question a representative of BCCI at hearings on July 27 or July 28 as to why the documents were not produced in response to the subpoena, either last year or to date.

If you have any questions, please feel free to contact me, Jonathan Winer, my counsel (telephone 224-2742, or the counsel to the Committee, David Keaney, (telephone 224-9034) who will be available to receive the documents.

I appreciate your attention to this matter.

Sincerely,


John Kerry, Chairman
Subcommittee on Terrorism,
Narcotics and International
Operations

cc: Senator Pell
Senator McConnell

304 S. Federal Highway

Boca Raton, Florida

Greethy®

Pursuant to lawful authority, YOU ARE HEREBY COMMANDED to
Foreign Relations
appear before the _____ Committee on _____
of the Senate of the United States, on _____ August 11 _____, 19__
at _____ Nine _____ o'clock _____ a.m., at their committee room _____ 216
Hart Senate Office Building

to testify what you may know relative to the subject matters under consideration by said committee.

and bring with you the documents described in Attachment A.

Attend fall mtg, as you will answer your default under the pains and penalties in such cases made and provided.

To the United States Marshals Service or any other authorized
person
 to serve and return.

Given under my hand, by order of the committee, this
27th day of July, in the year of our
 Lord one thousand nine hundred and eighty-eight

Chairman, Committee on Foreign Relations

Attachment A

All books, records and papers, relating, referring or embodying the following:

1. The management of assets for Manuel Antonio Noriega.
2. The holding of assets as custodian for Manuel Antonio Noriega.
3. Corporations, partnerships and other business entities under the direction and control of Manuel Antonio Noriega.
4. The management of assets for Michael Harari.
5. The holding of assets for Michael Harari.
6. Corporations, partnerships and other business entities under the direction and control of Michael Harari.
7. The management of assets for private clients in Colombia.
8. The holding of assets as custodian for private clients in Colombia.
9. All Panamanian clients for whom the Bank manages assets.
10. All Colombian clients for whom the Bank manages assets.
11. All trusts which have Panamanian beneficiaries.
12. All trusts which have Colombian beneficiaries.

For the period January 1, 1985 to June 1, 1988:

- a. All books, records and papers relating, referring to, or embodying travel and telephone and telephone communication by Kalid A. Awan and S. M. Shafi.
- b. All books, records, and papers referring, relating to or embodying the compensation of Kalid A. Awan and S.M. Shafi.

C. All reports describing, summarizing, and discussing the Bank's trust and money management operations.

For the purpose of this subpoena a "record" includes all media capable of storing information which can be read, and includes all information stored electronically--whether on computer disk or otherwise.

NIGHTLY NEWS THURSDAY, JUNE 15, 1989

4

ABERNETHY: If U.S. troops left Europe, would that mean a neutral Germany?

MAN: I think one can trust the Germans. They, they are very much looking now to the East. But the know that their position is in the West.

ABERNETHY: The tension between dreams and reality continued as Gorbachev traveled on a high-speed, experimental train that was delayed an hour by a bomb scare. In his four days here, Gorbachev touched West Germany's deep desire for a less dangerous Europe and revived the soul-searching about where the federal republic should stand between East and West. Bob Abernethy, NBC News, Bonn.

HIT:

GARRICK UTLEY: In this country, the Supreme Court hands down another important decision on civil rights. And General Manuel Noriega of Panama. American authorities think they may now have found the smoking gun. We'll have that, as we continue.

HIT: COMMERCIAL

HIT:

GARRICK UTLEY: For more than a year now, the U.S. government has been pursuing General Manuel Noriega, the ruler of Panama. He has already been indicted for his role in drug trafficking. But investigators wanted more, hard evidence of the money he has made. Now, they believe, they found it, more than one thousand pages of documents of Noriega's secret, numbered bank accounts overseas. Brian Ross is here now with his exclusive report. Brian.

HIT:

BRIAN ROSS: Garrick. American authorities say they

NIGHTLY NEWS THURSDAY, JUNE 15, 1989

8

consider these bank documents to be the smoking gun in the drug case against General Noriega. The documents were seized last October in London by British authorities after the bank used by Noriega, the Bank of Credit and Commerce, was itself indicted in a drug money case in Florida.

After months of going through all the documents seized in the bank, British authorities this week turned over twelve boxes of material, including the records of as many as seven secret accounts controlled by Noriega.

The records show that Noriega, while receiving an Army salary of about fifty thousand dollars a year, deposited at least fifty million dollars since he opened the account in early 1982. According to authorities who have seen the bank records, a key document is a letter from Noriega to his banker, Amjad Avan, now under arrest in Florida, instructing the banker that the accounts must be kept secret and that no bank statements ever be sent to Noriega in Panama.

Authorities believe that most of the money comes from Noriega's dealings with Colombian drug bosses, with international arms dealers, and with the CIA, which had Noriega on the payroll. Authorities say one transaction in particular stands out. The day after Noriega was indicted on drug charges, twenty-seven million dollars of Noriega's money was transferred out of a secret account in London to another secret account in Luxembourg, money American authorities say now try to seize. Garrick.

HIT:

GARRICK UTLEY: Thank you, Brian.

The Supreme Court today made a significant ruling on civil rights. It confirmed the right of an individual to go to court and sue for damages in case of private racial discrimination. What is important is this decision is that although the Court has weakened civil rights programs in recent rulings, here it refused to override an earlier Court decision. That is the power of — legal precedent. Carl Stern explains.

HIT:

2206

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
 WASHINGTON, D.C., REPRESENTATIVE OFFICE
 1807 K STREET, NW.
 WASHINGTON, D.C. 20006

2206



1ST AMERICAN
 BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOCIETE ANONYME

NOT NEGOTIABLE
 3 294 560

2207

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
 WASHINGTON, D.C., REPRESENTATIVE OFFICE
 1807 K STREET, NW.
 WASHINGTON, D.C. 20006

2207



1ST AMERICAN
 BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOCIETE ANONYME

NOT NEGOTIABLE
 3 294 560

2208

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
 WASHINGTON, D.C., REPRESENTATIVE OFFICE
 1807 K STREET, NW.
 WASHINGTON, D.C. 20006

2208



1ST AMERICAN
 BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOCIETE ANONYME

NOT NEGOTIABLE

2206

September 14, 1985

TO *Longport Staff*

FOR *cash 1000.00*

TOTAL	1000.00
THIS CHECK	1000.00
BALANCE	

2207

September 14, 1985

TO *Transvision Travel Inc.*

FOR *cash 1000.00*

TOTAL	1000.00
THIS CHECK	1000.00
BALANCE	

2208

September 14, 1985

TO *Roslene Smith*

FOR *cash 1000.00*

TOTAL	1000.00
THIS CHECK	1000.00
BALANCE	

GT

000457


BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
WASHINGTON, D.C., REPRESENTATIVE OFFICE
1407 K STREET, NW.
WASHINGTON, D.C. 20004

2215

Sept 23, 1985
TO Mr. Washington Post

FOR 9-2-85 to 10-27-85
TOTAL
THIS CHECK
BALANCE

1ST AMERICAN

NOT NEGOTIABLE
3 294 550


BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
WASHINGTON, D.C., REPRESENTATIVE OFFICE
1407 K STREET, NW.
WASHINGTON, D.C. 20004

2216

Sept 23, 1985
TO C & P Telephone

FOR 9-2-85 to 10-27-85
TOTAL
THIS CHECK
BALANCE

1ST AMERICAN

NOT NEGOTIABLE
3 294 580


BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
WASHINGTON, D.C., REPRESENTATIVE OFFICE
1407 K STREET, NW.
WASHINGTON, D.C. 20004

2217

Sept 23, 1985
TO Mr. Washington Post

FOR 9-2-85 to 10-27-85
TOTAL
THIS CHECK
BALANCE

1ST AMERICAN

NOT NEGOTIABLE
3 294 580

2665
March 04, 1986
TO: *Coy Seligman*
FOR: *Mr. Seligman*
242pc to 4/12/86
TOTAL
THIS CHECK
BALANCE 17/50

2666
March 04, 1986
TO: *WSSC*
FOR: *Mr. 516204 H000*
TOTAL
THIS CHECK
BALANCE 179/42

2667
March 04, 1986
TO: *Cont.*
FOR: *Mr. Nanga*
TOTAL
THIS CHECK
BALANCE 28/5

PAID TO ORDER OF THE
CREDIT AND COMMERCE INTERNATIONAL
BANK OF AMERICA
WASHINGTON, D.C. 20008
March 04, 1986
17/50
NOT NEGOTIABLE

PAID TO ORDER OF THE
CREDIT AND COMMERCE INTERNATIONAL
BANK OF AMERICA
WASHINGTON, D.C. 20008
March 04, 1986
179/42
NOT NEGOTIABLE

PAID TO ORDER OF THE
CREDIT AND COMMERCE INTERNATIONAL
BANK OF AMERICA
WASHINGTON, D.C. 20008
March 04, 1986
28/5
NOT NEGOTIABLE

2707	March 20-1936	27070000
TO Chamber of Commerce of the United States		
FOR Chamber of Commerce of the United States		
TOTAL		2707
TREASURY		
BALANCE		

2708	March 20-1936	27080000
TO Chamber of Commerce of the United States		
FOR Chamber of Commerce of the United States		
TOTAL		2708
TREASURY		
BALANCE		

2709	March 21-1936	27090000
TO Chamber of Commerce of the United States		
FOR Chamber of Commerce of the United States		
TOTAL		2709
TREASURY		
BALANCE		

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC RESEARCH
WASHINGTON, D. C. 20540

March 20-1936

Chamber of Commerce of the United States

NOT NEGOTIABLE



UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC RESEARCH
WASHINGTON, D. C. 20540

March 20-1936

Chamber of Commerce of the United States

NOT NEGOTIABLE



UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC RESEARCH
WASHINGTON, D. C. 20540

March 21-1936

Chamber of Commerce of the United States

NOT NEGOTIABLE

2728
 attached 31-10-86
 TO PERCO
 FOR 40 2046 742558
 TOTAL
 THIS CHECK
 BALANCE 7425

2729
 attached 31-10-86
 TO C&P Telephone
 FOR 40 301-229-1827 652
 TOTAL
 THIS CHECK
 BALANCE 302765

2730
 attached 31-10-86
 TO Charles M. Levine
 FOR 40 2046 742558
 TOTAL
 THIS CHECK
 BALANCE 263151

2728
 attached 31-10-86
 TO PERCO
 FOR 40 2046 742558
 TOTAL
 THIS CHECK
 BALANCE 7425

2729
 attached 31-10-86
 TO C&P Telephone
 FOR 40 301-229-1827 652
 TOTAL
 THIS CHECK
 BALANCE 302765

2730
 attached 31-10-86
 TO Charles M. Levine
 FOR 40 2046 742558
 TOTAL
 THIS CHECK
 BALANCE 263151



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOCIÉTÉ ANONYME
 WASHINGTON, D.C. REPRESENTATIVE OFFICE
 1407 P STREET, NW
 WASHINGTON, D.C. 20005

NOT NEGOTIABLE



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOCIÉTÉ ANONYME
 WASHINGTON, D.C. REPRESENTATIVE OFFICE
 1407 P STREET, NW
 WASHINGTON, D.C. 20005

NOT NEGOTIABLE

BANK OF AMERICA

2869

May 12 - 1956

TO Federal Express

FOR No 142-9282-4

WILL E. F. 1306-33555

TOTAL

THIS

CHECK

BALANCE

20%

2870

May 14 - 1956

TO Translogistics

FOR No 287-1012-13725-2

TOTAL

THIS

CHECK

BALANCE

100%

2871

May 15 - 1956

TO Cash

FOR Sub attached 219

Zaid M. Nijjar

TOTAL

THIS

CHECK

BALANCE

2000%

BANK OF AMERICA
 1000 P STREET, N.W.
 WASHINGTON, D.C. 20005

NOT NEGOTIABLE



BANK OF AMERICA
 1000 P STREET, N.W.
 WASHINGTON, D.C. 20005

1000 P STREET, N.W.
 WASHINGTON, D.C. 20005

NOT NEGOTIABLE



BANK OF AMERICA
 1000 P STREET, N.W.
 WASHINGTON, D.C. 20005

1000 P STREET, N.W.
 WASHINGTON, D.C. 20005

NOT NEGOTIABLE

NO
FOR

2884

May 21- 1988

TO Mr. S. S. Khan

FOR Balance Sheet

TOTAL	
THIS CHECK	53/65
BALANCE	

H.C.C. Kto

May 21- 1988

~~NOT NEGOTIABLE~~

2885

May 21- 1988

TO Mr. K. P. Mohl

FOR Voucher

TOTAL	
THIS CHECK	29/65
BALANCE	

Mr. K. P. Mohl

May 21- 1988

~~NOT NEGOTIABLE~~

2886

May 21- 1988

TO Mr. K. P. Mohl

FOR Balance Sheet

TOTAL	
THIS CHECK	256/65
BALANCE	

Mr. K. P. Mohl

May 21- 1988

~~NOT NEGOTIABLE~~

BANK OF CREDIT AND COMMERCE INTERNATIONAL

SOCIÉTÉ ANONYME

WASHINGTON, D.C. REPRESENTATIVE OFFICE

1047 P STREET NW

WASHINGTON, D.C. 20005

2885

2886



BANK OF CREDIT AND COMMERCE INTERNATIONAL

SOCIÉTÉ ANONYME

WASHINGTON, D.C. REPRESENTATIVE OFFICE

1047 P STREET NW

WASHINGTON, D.C. 20005

2885

2886

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC WARFARE
WASHINGTON, D. C. 20540

2953

June 16 - 19 52

TO AAAFOR 200-5162165

TOTAL	
THIS CHECK	342
BALANCE	

AAA
City only
24/

200-5162165

~~NOT NEGOTIABLE~~

2954

June 16 - 19 52

TO Public AffairFOR City only

TOTAL	
THIS CHECK	242
BALANCE	



DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC WARFARE
WASHINGTON, D. C. 20540

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC WARFARE
WASHINGTON, D. C. 20540

Public Affair
City only
242

~~NOT NEGOTIABLE~~

2955

June 16 - 19 52

TO Public AffairFOR City only

TOTAL	
THIS CHECK	242
BALANCE	



DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC WARFARE
WASHINGTON, D. C. 20540

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC WARFARE
WASHINGTON, D. C. 20540

Public Affair
City only
242

~~NOT NEGOTIABLE~~

2968

June 22 - 1988

TO Mr. S. S. Kline

FOR Travel with a man, Bethesda

K. G. Smith

TOTAL	
THIS CHECK	336/50
BALANCE	

STATE OF MARYLAND - DEPARTMENT OF REVENUE
 TAXPAYER'S NAME: K. G. SMITH
 ADDRESS: 1000 K STREET, NW
 WASHINGTON, D.C. 20004

June 26 - 88

2000 Kline

1000 K Street, NW, Washington, D.C. 20004

~~NOT NEGOTIABLE~~

2969

June 25 - 1988

TO Helmsby Palace Hotel

FOR ch. laundry

TOTAL	
THIS CHECK	459/50
BALANCE	



STATE OF MARYLAND - DEPARTMENT OF REVENUE
 TAXPAYER'S NAME: K. G. SMITH
 ADDRESS: 1000 K STREET, NW
 WASHINGTON, D.C. 20004

June 25 - 88

Helmsby Palace Hotel

For Travel for laundry for 1000 Kline

~~NOT NEGOTIABLE~~

2970

June 25 - 1988

TO Helmsby Palace Hotel

FOR ch. S. and laundry

TOTAL	
THIS CHECK	720/50
BALANCE	



STATE OF MARYLAND - DEPARTMENT OF REVENUE
 TAXPAYER'S NAME: K. G. SMITH
 ADDRESS: 1000 K STREET, NW
 WASHINGTON, D.C. 20004

June 25 - 88

Helmsby Palace Hotel

For Travel for laundry for 1000 Kline

~~NOT NEGOTIABLE~~

3043

July 22 - 1956

TO Mr. Nathan L. ...

FOR Mr. ...

TOTAL	3777/4
THIS CHECK	
BALANCE	

RECEIVED
JULY 22 1956
WASHINGTON, D.C. 20008

July 22 - 56

3777/4

NOT NEGOTIABLE

Mr. Nathan

3044

July 22 - 1956

TO Federal Reserve

FOR 44-1162-9220-6

UNDER 5-622-08815

TOTAL	42/4
THIS CHECK	
BALANCE	



BANK OF CREDIT AND COMMERCE INTERNATIONAL
BOC-UNIT ARAB BANK
1483 P STREET, N.W.
WASHINGTON, D.C. 20008

3044

July 22 - 56

42/4

NOT NEGOTIABLE

Federal Reserve

July 22 - 56

44-1162-9220-6 UNDER 5-622-08815

3045

July 22 - 1956

TO Mr. Nathan L. ...

FOR ...

TOTAL	250/4
THIS CHECK	
BALANCE	



BANK OF CREDIT AND COMMERCE INTERNATIONAL
BOC-UNIT ARAB BANK
1483 P STREET, N.W.
WASHINGTON, D.C. 20008

3045

July 22 - 56

250/4

NOT NEGOTIABLE

Mr. Nathan L. ...

July 22 - 56

3073

August 18 1934

TO CHARLOTTE LAMARINE

FOR LATER STAGE

TOTAL	
THIS CHECK	1672
BALANCE	

3074

August 18 1934

TO CHARLOTTE LAMARINE

FOR LATER STAGE

TOTAL	
THIS CHECK	1672
BALANCE	

3075

August 18 1934

TO CHARLOTTE LAMARINE

FOR LATER STAGE

TOTAL	
THIS CHECK	1672
BALANCE	

THE BANK OF CREDIT AND COMMERCE INTERNATIONAL

WASHINGTON, D.C. REPRESENTATIVE OFFICE

1001 F STREET, N.W.

WASHINGTON, D.C. 20004

1672

~~NOT NEGOTIABLE~~

BANK OF CREDIT AND COMMERCE INTERNATIONAL

WASHINGTON, D.C. REPRESENTATIVE OFFICE

1001 F STREET, N.W.

WASHINGTON, D.C. 20004

August 18 1934

FOR LATER STAGE

~~NOT NEGOTIABLE~~

BANK OF CREDIT AND COMMERCE INTERNATIONAL

WASHINGTON, D.C. REPRESENTATIVE OFFICE

1001 F STREET, N.W.

WASHINGTON, D.C. 20004

August 18 1934

FOR LATER STAGE

~~NOT NEGOTIABLE~~

3271
 October 22-1956
 TO *Chas. W. Torick Inc.*
 FOR *WIRE 221*

TOTAL	
THIS CHECK	<i>409/50</i>
BALANCE	

Not NEGOTIABLE

3272
 October 22-1956
 TO *Washington Lumber Co.*
 FOR *Mr. Nairn*

TOTAL	
THIS CHECK	<i>909/15</i>
BALANCE	

Not NEGOTIABLE

3273
 October 22-1956
 TO *Chas. W. Torick Inc.*
 FOR *WIRE 169007*

TOTAL	
THIS CHECK	<i>449/50</i>
BALANCE	

Not NEGOTIABLE



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 500 FIFTH AVENUE
 NEW YORK 17, N.Y.
 10017
 WASHINGTON, D.C. 20003



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 500 FIFTH AVENUE
 NEW YORK 17, N.Y.
 10017
 WASHINGTON, D.C. 20003

Chas. W. Torick Inc.
For WIRE 169007 and 29/100 m.b.

WIRE 169007

3292
October 15, 1958

TO ACCI Bureau

FOR all charges

TOTAL	
THIS CHECK	100%
BALANCE	

100%

~~NOT NEGOTIABLE~~

UNITED STATES DEPARTMENT OF COMMERCE
OFFICE OF FOREIGN AFFAIRS
WASHINGTON, D.C. 20540

3293
October 15, 1958

TO ACCI Bureau

FOR all charges

TOTAL	
THIS CHECK	100%
BALANCE	

100%

~~NOT NEGOTIABLE~~

UNITED STATES DEPARTMENT OF COMMERCE
OFFICE OF FOREIGN AFFAIRS
WASHINGTON, D.C. 20540

3294
October 15, 1958

TO Cash

FOR all charges

TOTAL	
THIS CHECK	100%
BALANCE	

100%

~~NOT NEGOTIABLE~~

UNITED STATES DEPARTMENT OF COMMERCE
OFFICE OF FOREIGN AFFAIRS
WASHINGTON, D.C. 20540

3355	NOV 19 1966	TO RCA Global Communications	119/16
FOR WIRE TRANSFER			
TOTAL			
THIS CHECK			
BALANCE			

3356	NOV 19 1966	TO International Finance Ltd	119/16
FOR WIRE TRANSFER			
TOTAL			
THIS CHECK			
BALANCE			

3357	NOV 19 1966	TO WCL Travel Services	369/16
FOR WIRE TRANSFER			
TOTAL			
THIS CHECK			
BALANCE			

BANK OF CREDIT AND COMMERCE INTERNATIONAL

WASHINGTON, D.C. REPRESENTATIVE OFFICE
1425 K STREET, N.W.
WASHINGTON, D.C. 20004

NOV 19 1966
119/16

NOT NEGOTIABLE



BANK OF CREDIT AND COMMERCE INTERNATIONAL

WASHINGTON, D.C. REPRESENTATIVE OFFICE
1425 K STREET, N.W.
WASHINGTON, D.C. 20004

NOV 19 1966
119/16

NOT NEGOTIABLE



BANK OF CREDIT AND COMMERCE INTERNATIONAL

WASHINGTON, D.C. REPRESENTATIVE OFFICE
1425 K STREET, N.W.
WASHINGTON, D.C. 20004

NOV 19 1966
119/16

NOT NEGOTIABLE

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
 WASHINGTON, D.C. REPRESENTATIVE OFFICE
 1701 K STREET, NW.
 WASHINGTON, D.C. 20005

3620

February 10, 1967

PAY TO THE ORDER OF *First American Bank* \$ *15,000.00*

For deposit to the credit of the account of 80/100 mg

1st AMERICAN
 FIRST AMERICAN BANK OF WASHINGTON, D.C.

FOR DEPOSIT ONLY

⑆0036 20⑆ ⑆054000043⑆ ⑆3294 560⑆ ⑆0000430990⑆

12800E0E7

3754		BAL DUE PORT	
check-26-10-87			
TO <i>John M. ...</i>			
FOR <i>advertising</i>			
TOTAL			
THIS CHECK			304/100
BALANCE			

3755		BAL DUE PORT	
check-26-10-87			
TO <i>Cash</i>			
FOR <i>Bill ...</i>			
TOTAL			
THIS CHECK			985/100
BALANCE			

3756		BAL DUE PORT	
check-26-10-87			
TO <i>John M. ...</i>			
FOR <i>advertising</i>			
TOTAL			
THIS CHECK			9/100
BALANCE			

3754
check-26-10-87
TO *John M. ...*
FOR *advertising*

check-26-10-87
FOR *advertising*

3755
check-26-10-87
TO *Cash*
FOR *Bill ...*

3756
check-26-10-87
TO *John M. ...*
FOR *advertising*

check-26-10-87
FOR *advertising*

3755
check-26-10-87
TO *Cash*
FOR *Bill ...*

3756
check-26-10-87
TO *John M. ...*
FOR *advertising*

check-26-10-87
FOR *advertising*

3755
check-26-10-87
TO *Cash*
FOR *Bill ...*

3769		APR 1 1982	
TO Mr. Wilson by Robert H. H.		PAID 500.00	
FOR Mr. Wilson			
TOTAL			
THIS CHECK			286.367
BALANCE			

Not Negotiable

NO 3769 6054000043C 3 APR 560P

3770		APR 1 1982	
TO Mr. Wilson		PAID 500.00	
FOR Mr. Wilson			
TOTAL			
THIS CHECK			973/62
BALANCE			

Not Negotiable

NO 3770 6054000043C 3 APR 560P

3771		APR 1 1982	
TO Mr. Wilson		PAID 500.00	
FOR Mr. Wilson			
TOTAL			
THIS CHECK			55%
BALANCE			

Not Negotiable

NO 3771 6054000043C 3 APR 560P

BANK OF CREDIT AND COMMERCIAL INTERNATIONAL
SOCIETY OF AMERICA
WASHINGTON, D.C., REPRESENTATIVE OFFICE
180 K STREET, N.W.
WASHINGTON, D.C. 20005

3847
April 27, 1987
TO National Democratic Service
FOR Service debt 4/28/87

TOTAL	19076
THIS CHECK	
BALANCE	

CO-OP BANK
1000 R. 21 ST. N.
MINNAPOLIS, MN 55403

12.13.87

1987

NOT NEGOTIABLE

APR 27 1987

3848
April 27, 1987
TO Friends of White
FOR Friends of White

TOTAL	20475
THIS CHECK	
BALANCE	

Bank of Credit and Commerce International
Solely American
Washington, D.C. Representative Office
1000 R. 21 ST. N.
MINNAPOLIS, MN 55403

APR 27 87

20475

NOT NEGOTIABLE

APR 27 1987

3849
April 27, 1987
TO Los Angeles
FOR Los Angeles

TOTAL	33026
THIS CHECK	
BALANCE	

Bank of Credit and Commerce International
Solely American
Washington, D.C. Representative Office
1000 R. 21 ST. N.
MINNAPOLIS, MN 55403

APR 27 87

33026

NOT NEGOTIABLE

APR 27 1987

3886
 1000 FUND
 1987
 TO *Receivable from [illegible]*
 FOR *WIRE 12/24/87*

TOTAL	1856.9
THIS CHECK	
BALANCE	

3887
 1000 FUND
 1987
 TO *Receivable from [illegible]*
 FOR *WIRE 2/1/88*

TOTAL	246.00
THIS CHECK	
BALANCE	

3888
 1000 FUND
 1987
 TO *Receivable from [illegible]*
 FOR *WIRE 12/24/87*

TOTAL	1245.00
THIS CHECK	
BALANCE	

3886
 1000 FUND
 1987
 TO *Receivable from [illegible]*
 FOR *WIRE 12/24/87*

TOTAL	1856.9
THIS CHECK	
BALANCE	

3887
 1000 FUND
 1987
 TO *Receivable from [illegible]*
 FOR *WIRE 2/1/88*

TOTAL	246.00
THIS CHECK	
BALANCE	

3888
 1000 FUND
 1987
 TO *Receivable from [illegible]*
 FOR *WIRE 12/24/87*

TOTAL	1245.00
THIS CHECK	
BALANCE	

THE CREDIT AND DEBIT INTERNATIONAL
 CREDIT ADVANCE
 WASHINGTON, D.C. 20540
 1000 K STREET, N.W.
 WASHINGTON, D.C. 20000

THE CREDIT AND DEBIT INTERNATIONAL
 CREDIT ADVANCE
 WASHINGTON, D.C. 20540
 1000 K STREET, N.W.
 WASHINGTON, D.C. 20000

3931

check - 26-1987

TO: CMC Telephone

FOR: 26-262-603.69.5

TOTAL	2664.02
TWO CHECK	
BALANCE	

CMC Telephone

2664.02

FOR: 26-262-603.69.5

NOT NEGOTIABLE

3931

3932

check - 26-1987

TO: LMF

FOR: 26-262-603.69.5

TOTAL	2664.02
TWO CHECK	
BALANCE	

LMF

2664.02

FOR: 26-262-603.69.5

NOT NEGOTIABLE

3932

3933

check - 26-1987

TO: CMC Telephone

FOR: 26-262-603.69.5

TOTAL	2664.02
TWO CHECK	
BALANCE	

CMC Telephone

2664.02

FOR: 26-262-603.69.5

NOT NEGOTIABLE

3933

3952	
June-02-1987	
TO Bank of Credit and Commerce No 030001556	
At 03003156	
FOR All Nigra Savings	
TOTAL	
THIS CHECK	400000
BALANCE	

Bank of Credit and Commerce No 030001556
 60,000
 June-02-87
 For All Nigra Savings

~~NOT NEGOTIABLE~~

3953	
June-02-1987	
TO All Nigra Savings	
FOR All Nigra Savings	
TOTAL	
THIS CHECK	9999
BALANCE	

Bank of Credit and Commerce International
 60,000
 June-02-87
 For All Nigra Savings

~~NOT NEGOTIABLE~~

3954	
June-03-1987	
TO Bank	
FOR All Nigra Savings	
TOTAL	
THIS CHECK	38400
BALANCE	

Bank of Credit and Commerce International
 38,400
 June-03-87
 For All Nigra Savings

~~NOT NEGOTIABLE~~

3640	
February 13 1987	
TO DEPOSIT TO BANK OF AMERICA	
FOR STAFF OFFICE	
TOTAL	2012.76
THIS CHECK	
BALANCE	

TO DEPOSIT TO BANK OF AMERICA
FOR STAFF OFFICE
2012.76
NOT NEGOTIABLE

3641	
February 15 1987	
TO DEPOSIT TO BANK OF AMERICA	
FOR STAFF OFFICE	
TOTAL	1814.00
THIS CHECK	
BALANCE	

TO DEPOSIT TO BANK OF AMERICA
FOR STAFF OFFICE
1814.00
NOT NEGOTIABLE

3642	
February 17 1987	
TO DEPOSIT TO BANK OF AMERICA	
FOR STAFF OFFICE	
TOTAL	49.00
THIS CHECK	
BALANCE	

TO DEPOSIT TO BANK OF AMERICA
FOR STAFF OFFICE
49.00
NOT NEGOTIABLE

3646

February 17-1987

TO *Resident's Dignot*

FOR *Ag. 13504-57841*

TOTAL	
THIS CHECK	<i>1061</i>
BALANCE	

STATE CREDIT AND COMMERCE INTERNATIONAL
 1647 K STREET, N.W.
 WASHINGTON, D.C. 20006

NOT NEGOTIABLE

3647

February 17-1987

TO *Metropolitan Blue Hotel*

FOR *Adv. Receipt*

TOTAL	
THIS CHECK	<i>922472</i>
BALANCE	

STATE CREDIT AND COMMERCE INTERNATIONAL
 1647 K STREET, N.W.
 WASHINGTON, D.C. 20006

NOT NEGOTIABLE

3648

February 17-1987

TO *Adv. 4/11/87 K. H. H.*

FOR *Adv. Receipt (Adv.) for Adv. 11/87*

32-1187

TOTAL	
THIS CHECK	<i>49129</i>
BALANCE	

STATE CREDIT AND COMMERCE INTERNATIONAL
 1647 K STREET, N.W.
 WASHINGTON, D.C. 20006

NOT NEGOTIABLE

3649	
February 18- 1987	
TO Charles of Lawrence of	
the United States	
FOR DEPOSIT	
TOTAL	
THIS CHECK	7586
BALANCE	

NOT NEGOTIABLE

3649 005100000430

3650	
February 18- 1987	
TO ACCELCELLOS Angeles	
FOR M. A. V. S. G.	
TOTAL	
THIS CHECK	4764/25
BALANCE	

Bank of Credit and Commerce International
Sole Agent
Washington, D.C. Representative Office
1801 K Street, N.W.
Washington, D.C. 20006

NOT NEGOTIABLE

3650 005100000430

3651	
February 18- 1987	
TO BANK	
FOR M. A. V. S. G.	
TOTAL	
THIS CHECK	231/25
BALANCE	

Bank of Credit and Commerce International
Sole Agent
Washington, D.C. Representative Office
1801 K Street, N.W.
Washington, D.C. 20006

NOT NEGOTIABLE

3651 005100000430

3727

March - 16 - 19 87

TO Helmsley House

FOR all Storage

TOTAL
THIS CHECK
BALANCE

9789.46

NOT NEGOTIABLE

3727 40540000430

3728

March - 16 - 19 87

TO Helmsley House

FOR all Storage

TOTAL
THIS CHECK
BALANCE

12294.5

NOT NEGOTIABLE

3728 40540000430

3729

March - 12 - 19 87

TO Catherine M. Gyle

FOR all Storage

TOTAL
THIS CHECK
BALANCE

3044.00

NOT NEGOTIABLE

3729 40540000430

FOR 1

3727 40540000430

3727 40540000430

3728 40540000430

3728 40540000430

3728 40540000430

3729 40540000430

3729 40540000430

3729 40540000430

GT

000963

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
 WASHINGTON, D.C., REPRESENTATIVE OFFICE
 1607 K STREET, NW.
 WASHINGTON, D.C. 20006

3619

February 16, 1982

PAY TO THE ORDER OF *Jacques Thorelli Inc.* \$ *17239/00*

Seventeen thousand two hundred and thirty nine and 00/100 only DOLLARS

1st AMERICAN
First American Bank, Inc. Member FDIC

For the manager

⑆003619⑆ ⑆054000043⑆ 294 560⑆ ⑆0001723960⑆

02003377
ELEED020

1348

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
 WASHINGTON, D.C. REPRESENTATIVE OFFICE
 1817 K STREET, N.W.
 WASHINGTON, D.C. 20006


3641

DATE *February 17-1967*
 02-25-67 004 25-055 5055-155

ORDER OF *First American Bank*
One thousand eight hundred and fifty dollars
1st AMERICAN
for cash
 003641 00540000431 294 560 000018125

DOLLARS

55420E0E


BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOLOMON ARONOWITZ
 WASHINGTON, D.C. REPRESENTATIVE OFFICE
 1000 K STREET, N.W.
 WASHINGTON, D.C. 20006

3650
 12/15/81
 \$100.00
 Ten hundred and 00/100 dollars and 00/100 cents
 DOLLARS

1st AMERICAN
 1003650 60540000430 3 294 560 00000466152

USFN 000186

MEMORANDUM

CONTENTS COVERED BY ATTORNEY-
CLIENT AND WORK PRODUCT PRIVILEGES

TO: Confidential File of Bank of Credit and Commerce International (Overseas) Limited

FROM: Roma W. Theus, FI

DATE: September 24, 1990

RE: Inquiry of the Kerry Committee

Approximately two-weeks ago I met with a highly reliable, Confidential Source (the "Source") to further discuss the subpoenas served on Robert Altman ("Altman") and Raymond Banoun ("Banoun") by the Kerry Committee. The meeting lasted approximately thirty (30) minutes and resulted in my receiving information from the Source that was predicated upon his personal contacts in Washington, D.C.

The Source advised that there is no return date for subpoenas that have been served on Altman and Banoun by the Kerry Committee. In response to those subpoenas, the Source stated that Altman and Banoun are opposing the subpoenas and doing everything within their power to call in "political markers". Consequently, it may be that Altman and Banoun will succeed in quashing their subpoenas or having them withdrawn; and not end up testifying before the Kerry Committee.

According to the Source, the Kerry Committee and its Staff have a strong belief that the Bank of Credit and Commerce International (Overseas) Limited ("the BCCI") is a "bad" or "evil" bank. Indeed, the Source stated that the Kerry Committee and its Staff genuinely believe that BCCI has furnished wholesale advice to its customers regarding the structuring of federal income tax evasion; and that BCCI has deliberately sought and accepted as deposits "hot money". With respect to the structuring of federal income tax evasion, the Source stated that the Kerry Committee and its Staff believe that BCCI has furnished advice to its customers about off-shore deposits; off-shore loans; letters of credit; and offshore transactions. The common thread concerning all such advice, according to the Source, is the evasion of payment of federal income taxes.

Page 2

Additionally, the Source stated that the Kerry Committee and its Staff are deeply concerned about the overlap of ownership as to BCCI, First American Bank and other entities. With respect to this matter of the overlap of ownership, the Source stated that the Kerry Committee and its Staff intend to question Altman closely in his capacity as a banker.

With respect to the overlap of ownership issue, the Source surmised that Garon Pharone ("Pharone") might be subpoenaed by the Kerry Committee. Pharone would be a likely candidate to be subpoenaed to testify before the Kerry Committee because of his contacts and association with Bert Lance.

The Source stated bluntly that the Kerry Committee is on a "crusade". In short, from the information available to the Source at this time, it appears that the Kerry Committee wants to put BCCI out of business.

The Source stated that the Kerry Committee and its Staff are also concerned about past contacts between such Committee and Altman and Banoun. These past contacts may have resulted in representations having been made by either Altman or Banoun or both that were not accurate. The Source suggested that these inaccurate, or perhaps false, representations may have related to the production of documents or cooperation with Government.

The Source stated that it is anticipateable that the Kerry Committee will direct its questions to Altman in his capacity as a banker, not in his capacity as a lawyer. The Source further stated that it is expectable that Banoun will be questioned about representations he made to the Kerry Committee regarding document production and/or cooperation with the Government.

The Source emphasized that the matters he was revealing to me were extraordinarily sensitive and confidential. Accordingly, he stressed that the utmost in confidentiality should be observed in order to preserve and protect the flow of information on this matter.

The Source stated that the intense effort being made by the Kerry Committee was very unusual. However, the Source did not know, and had not heard, what triggered these very intensive efforts by the Kerry Committee regarding BCCI. The Source did note, however, that the Kerry Committee had received substantial, negative information about BCCI

Page 3

preliminarily from the United States Customs Service; and that such a negative information had been reenforced by further condemnation of BCCI by the IRS.

The foregoing accurately summarizes the highlights of my meeting with the Source approximately two-weeks ago. The within memorandum is not, and is not intended to be, a verbatim account of that meeting with the Source. Moreover, because of the singular nature of much of the information and the direct and personal contacts made by the Source, this memorandum and its contents should be disseminated on only the most selective basis.

*CONFIDENTIAL**mem ugerg*

320 PARK AVENUE NEW YORK NY 10022

DATE: March 1, 1990

FROM: B.A. Palkhiwala
USRO - New YorkTO: Mr. Swaleh M. Naqvi
PresidentSUBJECT: STATUS REPORT ON MIAMI AGENCY LICENCE
SYNOPSIS OF DEVELOPMENTS TO DATE TO ENABLE COURSE OF ACTION

On Wednesday, February 28th, accompanied by Larry Wechsler and Greg Baldwin, the undersigned met with the Criminal Investigation Department of the U.S. Internal Revenue Service in Fort Lauderdale.

Attending the meeting were Mr. Daniel M. Dockum, Chief of the Criminal Investigation Division and his Assistant, Mr. Tom Ferris.

The purpose of the meeting was to present BCC's case to the IRS which was pressing for a possible indictment against the Bank in the Southern District of Florida. BCC's Plea Agreement and other cooperation agreements were made with the Middle District of Florida and apparently, the Southern District does not necessarily have to abide by them.

If the IRS decides to press for an indictment, the case would be referred to the U.S. Attorneys Office in Miami for their concurrence and, finally, indictment and trial.

To cut the long story short (detailed Minutes will be provided by our Legal Group), this was the first time that the IRS came face-to-face with a BCC person. The historical background of the Bank, its shareholders, its activities, its regulatory progress of the past 18 months, etc. were not known to them in any significant detail, nor did they appear interested in such details. Their focus was only in bringing about the successful prosecution of various U.S. citizens or entities who they felt were evading U.S. taxes, and proceeding against the Bank who they felt was possibly in collusion with such entities and corporations to assist in U.S. income tax evasion.

All they wanted to know was "what can you really do for us, how can you help us, if we were to decide not to indict you?". As plain as that. As a corollary, they expressed doubts as to how they can ensure that if a deal was struck, the Bank would honor it.

Messrs. Wechsler, Baldwin and I went through every aspect and explained our position, explained that cooperation had already begun and that the IRS would give nothing away because the Bank, besides being on a 5-year probation, could be indicted at any time in the future and hence, the advantages lay with the Authorities.

DC 007501

At the end of it all, Mr. Dockum stated that much would depend on what Mr. Gerald Lewis would do. We explained that the loss of the Miami Agency license would be an unfortunate but localized situation and that possibly, the Bank would continue to exist (and cooperate) in New York and California.

However, an indictment has other overtones involving overseas regulators, financial institutions, government institutions, customers, market confidence, etc. They appeared to understand the differentiation we were attempting to explain.

At the conclusion of the meeting, Mr. Dockum stated that the meeting had been very useful and we got the impression that we might have stopped the head-long rush towards another indictment, but whether we have eliminated it or not, remains to be seen.

The turning point, if any, was the outline of how the Bank could cooperate and the tremendous advantages of assisting the areas where the IRS would have little success by itself. Mr. Dockum hinted that in view of the IRS' very meager resources, such assistance would be of considerable value - provided they got it.

Conclusion: - Cautious optimism.

(If an indictment would come, it would not be earlier than 4 weeks and not later than 8 weeks. The IRS' recommendations would go from Miami to Atlanta to Washington for finalization.)

OPTIONS ON MIAMI AGENCY LICENSE

If a second indictment were to occur, there is no question that the Miami Agency License would cease to exist as the media pressure would be extreme.

If we assume that the indictment is not coming, then the focus is on the options that Mr. Gerald Lewis can exercise on BCC Miami Agency License.

OPTION 1

He may decide to revoke/cancel the Miami Agency License prior to the expiration date of March 14, 1990.

In such an eventuality, BCC has the right to demand an Administrative Hearing. If the request for the Hearing is approved, the Miami Agency License is deemed to be continuous until such time as the Hearing is concluded. The possible time frame for such a Hearing from start to finish could be up to 6 months, at the end of which two things can happen:

- 1) The Judge may uphold Gerald Lewis' decision and the Miami License would stand cancelled. BCC would have the right to appeal to a higher Court. Alternatively, BCC could accept the verdict and ask for a 60-90-day period to wind up its affairs in Florida.
- 2) The Judge could rule in BCC's favor and the State of Florida would have to renew the License. They could, however, impose further sanctions, i.e. substitute the MOU with a Cease and Desist Order and any other restrictions.

The consensus is that Mr. Lewis will not cancel or revoke the License.

OPTION 2

Mr. Gerald Lewis may simply allow the existing License to lapse on March 14th. This could be done by a letter addressed to BCC prior to March 14th stating that the Renewal Application has been rejected.

(As a corollary, it is felt that BCC is more likely to learn of this rejection from the press as the letter to be addressed to BCC could be in the hands of the media before it arrives at the Bank. This would be a retaliation for the manner in which Mr. Gerald Lewis learned of the BCC Plea Agreement in Tampa.)

There are no Florida Statutes that call for the continuation of the Miami Agency License once the Renewal Application has been rejected.

BCC would have to resort to the Courts to obtain an injunction and a continuance of License pending a request for a Hearing. Once the Hearing has been granted - which could again last up to 6 months - the License would be deemed to be continued and the Bank could continue to operate until the conclusion of the Hearing.

Whatever would the decision be of the presiding Judge, the same procedure would thereafter apply as outlined under Option 1.

The consensus of our Legal Group is that Mr. Gerald Lewis is most likely to exercise this Option.

OPTION 3

Under this Option, Mr. Gerald Lewis may decide to renew the License on a probationary basis for continuing short periods, say 60 or 90 days at a time pending the resolution of further investigations, deals, etc.

Besides being a highly unsatisfactory solution, the danger is that at the end of a period close to November, 1990, Mr. Lewis may make the final decision not to renew in order to get maximum fresh political advantage just prior to the November elections.

ADVANTAGES AND DISADVANTAGES OF PROLONGING OF THE LICENSE PERIOD THROUGH HEARINGS PROCEDURES

The Hearings, as outlined in Options 1 and 2, could provide the advantages of buying time.

During this period of a few months, it may be possible for the Bank, with the assistance of our Legal Group, to demonstrate to the various Authorities (Federal, U.S. Attorney, IRS, DEA, etc.) the actual cooperation given by the Bank and the benefits thereof to the Authorities. If these benefits are clearly demonstrated to be of great importance to the Authorities, then some or all of these government entities could be induced to press our case with and, hopefully, convince Mr. Gerald Lewis to reinstate the Miami Agency License.

It could also give a breathing space with the Florida State Banking Authorities and Mr. Gerald Lewis to work out some other arrangements that maybe acceptable to them. Mr. Bruce Roberson of Holland & Knight in Tampa, who has his finger on the pulse, estimates that BCC's chances at a Hearing are, at best, less than 50-50. It is conceivable that during this period of Hearing, the chances could improve over 50%.

If the decision of the Judge goes against BCC, the Bank will have on its record the fact that its License had been cancelled. This could obstruct the chances for BCC to obtain a license anywhere else in the world or to purchase a Bank anywhere else in the United States or anywhere else in the world.

It is my personal opinion that extra weighage should not be given to this factor because as matters stand at present, the Bank is already labelled as a convicted felon, a fact that can have no better or worse effect on any future license application than if any of its licenses has been revoked or cancelled. In other words, we are already at a disadvantage as of February 5th when our guilty plea was accepted at the Federal Court in Tampa.

However, we should consider whether winning a decision at the Hearing is worth the effort for BCC.

Is it worth for us to have won the right to operate in an environment of hostility from the State Regulators, hostility from press and media, hostility from the constituents and hostility from the local financial institutions.

The fact is that continuing under a 5-year probation as imposed by the Federal Court in Tampa, additional restrictions from the Florida State Authorities and an unrelenting press continuing its witch-hunt, only the flimsiest of excuses, justified or otherwise, could cause our License, our reputation and our continuance in that State to come under pressure. In other words, in spite of our victory, we could be hounded to death. Does an international institution with \$20 billion in assets have to contend with such an existence in one of its secondary locations.

At this point, we should consider the decision to withdraw our Application for the renewal of the Miami Agency License and pre-empt any aggressive move by Mr. Gerald Lewis largely for reasons of political advantage. We will have left voluntarily instead of the stigma of being asked to leave.

But then, one might argue, did we not state earlier that the cancellation of the License can hardly put us in any worse position than that the Bank is in as convicted felon?

Not a worse position. It could put us in a better position, i.e. in a position of some slight advantage.

By this I mean that the Regulators, financial institutions and key clients are aware that we have pleaded guilty under the doctrine of criminal responsibility, where a Bank is deemed to be guilty because of the acts of some of its employees. Institutions outside of the U.S. realize that the Bank would not be guilty in any other country except the United States because of this particular U.S. law. In the light of this, a voluntary withdrawal by BCC in Miami would be an advantage.

However, this decision, if it is to be made, has to be finalized by the end of business Friday, March 2nd, as it is likely that Mr. Gerald Lewis may announce his decision in the following week. Everyday thereafter, we increase the risk of being beaten to the punch by a possible announcement from Tallahassee.

SECOND INDICTMENT: HOW DREADFUL IS IT?

We have been so focused and tension-ridden about the possibility of a further indictment that we have bestowed upon it the power to signal a catastrophe for BCC.

But let us pause for a moment and think. Of course a second indictment will be dreadful. Yes, it will upset the Overseas Regulators. Yes, it will lead to another open season against BCC in the press and media.

However, let us analyze what this second indictment will be all about.

The IRS have stated that the indictment would be brought about as a result of investigations and activities going back to 1988 and earlier. No indictment is expected for any fresh event during 1989 and after.

We have gone through all our accounts with the Legal Group and Price Waterhouse, central audit and we have ourselves cleaned our shop. In truth, the indictment will be counter-productive; they will be beating a dead horse as they will be looking at events which happened in 1988 (or before) and after the Bank in the U.S. was re-organized, re-fitted, upgraded, automated and has passed the strictest Federal and State Examinations in all locations in 1989.

This fact will be clear in the minds of the U.S. Regulators and can be explained to all the overseas Regulators and Central Banks.

On the one hand, we have the U.S. Justice Department, the U.S. Attorney's Office and the Federal and State Regulators, including Florida State Regulators, confirming the progress of BCC the new professionalism and the fact that the Bank is now considered to be a good corporate citizen. On the other hand, some governments department are hostile and refusing, by their actions to acknowledge this fact.

Hence, whereas a second indictment will cause considerable discomfort, we should not attribute to it greater destructive powers than it possesses. If it comes, let us face it.

At one time, we were much worried with the superseding indictment. It happened.

I do not wish to minimize the impact of such an eventuality but let us take the terror out of it and review it in the cold light of day.

PUBLIC RELATIONS

It is my strong recommendation that should Mr. Gerald Lewis hold a Press Conference at the time that he decides to pull the Miami Agency License, we should be prepared within 24 hours to issue our own statement which should be blunt, factual and aggressive. We should not be afraid to tell the public that in our view this is a situation where State Officials have gone against the recommendations and opinions of Federal, State and other government departments, possibly for political gain.

In the U.S., silence could be mistaken for guilt. We have to speak out.

We have to prepare two draft releases and keep them ready by Friday, March 2nd. One: to promptly deal with an announcement from Mr. Gerald Lewis' Office allowing our License to lapse. Two: to deal with the withdrawal of our Application by ourselves.

I have recommended to Larry Wechsler and Greg Baldwin that both of these should be kept ready and Larry Wechsler has informed me that one press release is ready and that he would discuss the matter with Mr. Altman to prepare the second release and keep it ready. USRO has plans at each Agency to immediately approach the Regulators and thereafter, key institutions to explain either move.

If mine were the decision, I would voluntarily move out of Miami because it will be impossible to survive in a hostile environment. We could consolidate the manpower, assets, deposits and all businesses in New York and I have confidence that we could make New York one of the most profitable operation in BCC. We could do much of the business in New York that is now being handled by Miami. We will grow and expand in the environment in New York where a more mature Federal Reserve Bank and more mature Regulators sympathize with our position and where decisions affecting a Bank of the stature of BCC will not be subject to the whims of a politician.

I would welcome the opportunity to discuss and clarify any of the above, keeping in mind that the clock is running.

Kindest regards,



B.A. Palkhiwala
General Manager - USA

cc: Mr. Robert A. Altman, Clifford & Warnke, Washington
Mr. Lawrence H. Wechsler, Janis, Schuelke & Wechsler, Washington
Other Attorneys

lawyers

BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.
UNITED STATES REGIONAL OFFICE 320 PARK AVENUE NEW YORK NY 10022

March 7, 1990

VIA TELEFAX

Robert A. Altman, Esq.
Clifford & Warnke
815 Connecticut Ave. NW, Suite 1200
Washington, D.C. 20006

Dear Mr. Altman:

I have been trying to reach you since yesterday.

Greg Baldwin has set up an appointment with Carol Wilkinson

(REDACTED)

The meeting is on Thursday at 3:30 PM and I sincerely request you to have Larry accompany us.

Kindest regards,

B.A. Palkhiwala
General Manager-USA

FAXED

CC: Mr. Lawrence H. Wechsler - Janis, Schuelke & Wechsler, Washington, D.C.

HN 0019



BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.
UNITED STATES REGIONAL OFFICE 320 PARK AVENUE NEW YORK NY 10022

Altman

See page 3

CLIENT/ATTORNEY PRIVILEGE

March 21, 1990

Mr. Robert A. Altman
Clifford & Warnke
815 Connecticut Ave. NW, Suite 1200
Washington, D.C. 20006

Dear Mr. Altman:

Events have moved so rapidly and on so many fronts during these last 3-4 weeks that I felt that I should provide my comments for purposes of coordinating this multi-sided situation.

My comments are aimed at ensuring firstly, that we provide priority where necessary, and secondly, that items of secondary priority do not inadvertently drop between chairs.

This letter may possibly serve as one of the basic pieces around which some discussions can take place in London next week.

1) PERSONNEL ISSUES

When Messrs. Wechsler, Baldwin and I met Ms. Carol Wilkinson on March 9th, the issue of the Bank taking action against its errant employees, irrespective of whether any Government Agency moved against them or not, was an issue that was forcefully presented to us. I gather from her comments that she felt that Tariq Jan should have been fired -- "the customer's documents (Pratt) found in his desk drawer" episode. The pointed reference to "a person in London" remains unidentified.



Mr. Robert A. Altman
Clifford & Warnke
Page 2

Several months ago, we identified certain people, particularly the gentleman in Jamaica who should be given his walking papers. Nothing has yet happened and if your investigations have revealed good reasons to fire this individual, we should do it immediately. If there are other names on this list, we must also move on them immediately if we are to follow up on our commitments and not lose credibility with key officials and departments.

As these employees will be outside my jurisdiction, I would appreciate your comments as to what action to take, because in-action will merely ensure that any resulting debris will wash up on my doorstep.

Another issue is that both the Florida and New York Regulators have questions the large staff at Miami Agency (82 employees) and New York Agency (72 employees + Regional staff of 29).

Mr. Sullivan of the New York FED and Caroline Harless of Atlanta FED have both pointedly remarked that not only is the staffing excessive, but there are discriminatory processes of the benefits paid to international staff as opposed to local staff. International staff are those officers who are appointed by London and get special housing loans, furloughs, country allowances and other privileges. Up to now, the local staff has got nothing but I have instituted housing loan, car loan and personal loan for them. There is some justification for non-American personnel being assigned to the USA on an international staff status. There is no justification for US citizens to be given international staff status. There are 6 of these and it is deemed to be a discriminatory practice because these US citizens get benefits that other US citizens do not.

Patrick Lynch, Marvin Hancock and Khurshid Alam are US citizens enjoying international status. I have tried in vain since September, 1989 to have all US citizens converted to local staff status but I have failed. I need permission to convert all US citizens to local staff no later than March 31, 1990 or we may attract US Regulators' criticisms.

I believe that a reduction of at least 20 employees at each Agency is feasible, along with a cut of 7 people in the Regional staff. The US must reduce from a total staff strength of 224 to approximately 170. If Miami closes, the maximum staff strength should be not more than 100.

In addition to overstaffing, the profit picture is suffering dramatically and the US Region must be given a free hand to rationalize or face the consequences.



Mr. Robert A. Altman
Clifford & Warnke
Page 3

2) INDEPENDENT INVESTIGATION

We came away from the meeting with Carol Wilkinson on March 9th convinced that we are facing a serious situation, perhaps second only to the October, 1988 indictment, and with greater potential for danger than anything Gerald Lewis or the Plea Agreement can muster.

For whatever reasons, right or wrong, I came away with the feeling that a second indictment was a near certainty and a serious effort on our part -- displayed by actions and not words -- could perhaps avert disaster. Perhaps. I am equally convinced that a lack of such a display will make action against the Bank inevitable.

In my conversations with Larry Wechsler after the March 9th meeting, I had expressed this view which Larry had promised to convey to you. I am now reiterating this view because we must have something additional to lay on the table by mid-April if it is not to be our last supper.

When I briefed Mr. Naqvi after the March 9th meeting, he agreed with the need to conduct a private investigation but with the provision that there must be some concrete evidence against the employee before he would be prepared to dismiss them.

Private investigations, along with #1 above, require top priority as we are committed.

3) COURT HEARING AND RELATED STRATEGY

Everyone, verbally and in print, has stated that our chances for success at the Hearing are slim. The strategy is to use the time in order to make a coordinated deal with all relevant Government Agencies, Districts, etc. to give the Bank some protection against maverick indictments in exchange for codified cooperation, some of it already demonstrated by the Bank.

However, I would be opposed to offering ad-hoc cooperation to any Government Agency if firstly, the results of such cooperation are used against the Bank, and secondly, an overall understanding with all concerned Government Agencies has not been reached.



Mr. Robert A. Altman
Clifford & Warnke
Page 4

Our past efforts have shown that cooperation has resulted in the Bank being faced with a congratulatory pat on the back from one side, along with the possibility of a slap in the face from another. This ongoing dichotomy has to be rectified or the Bank can't function in the USA. *

I thought that I would bring these objectives to your attention and join you on the banking side, to accomplish them under your guidance.

By the way, I would mention that copies of any of my letters are only sent to those who are addressed or copied. If you agree, however, I would like to place the contents of this letter on the Agenda for London, unless steps have already been taken to make these items obsolete.

Kindest regards,

B.A. Palkhiwala
General Manager-USA

CC: Mr. Lawrence H. Wechsler - Janis, Schuelke & Wechsler, Washington, D.C.
Mr. Raymond Banoun - Arent, Fox, Kintner, Plotkin & Kahn, Washington, D.C.



FAX TRANSMISSION

March 27, 1990

198

TO: Mr. Robert A. Altman
Clifford & Warnke, Washington, D.C.

FAX NO.

NO. OF PAGES 1 of 1

REF. NO.

I wish to bring the following to your attention.

1)

2)

(REDACTED)

3)

- 4) I have been chosen to take the place of London Credit Committee Officials and give my deposition on Thursday. Therefore, I may be unable to reach New York until Friday night but you can reach me, care of Feroze Deane.

They don't call me Lucky Pierre (apologies to Banoun) for nothing.

Kindest regards,

(dictated by from London by Mr. B.A. Palkhiwala)

CC: Mr. Raymond Banoun - Arent, Fox, Kintner, Plotkin & Kahn, Washington, D.C.
Mr. Lawrence Wechsler - Janis, Schuelke & Wechsler, Washington, D.C.

BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.

HN

0023

UNITED STATES REGIONAL OFFICE 320 PARK AVENUE NEW YORK NY 10022 PHONE (212) 715-3800 TELEX 425802 BCCI NY 60 FAX (212) 715-3880



FAX TRANSMISSION

March 27, 1990

198

TO: Mr. Robert A. Altman
Clifford & Warnke, Washington, D.C.

FAX NO.

NO. OF PAGES 1 of 1

REF. NO.

I wish to bring the following to your attention.

- 1) The telephone number for Kerry Rothschild, a friend of Gerald, is (813) 253-6551. Trust you will issue suitable instructions.
- 2) I am informed by Romit Basu that FIBA have removed our name.

This unprofessional action deserves a firm response, especially as I had met with the President and Chief Executive Officer and explained our inability to defend ourselves because of the Gag Order. They had agreed to permit me to address the Members and/or their Executive Committee at an appropriate time and had stated that they would take no further action at the present time.

For a Bankers' Association to act in this irresponsible manner, at a time when we are under appeal in the Court in the State of Florida, is pathetic and my humble view, which is shared by Feroze Deane, is that we should make an aggressive and unmistakable response which we can copy to other Bankers' Associations who are fighting to ensure that cavalier action is not taken against banks.

I don't know if you will agree with this view but if you do, I suggest a draft response should be prepared and reviewed by all prior to despatch.

- 3) Re: Amin Jindani, the Bank had sponsored him for Permanent Residence several months ago when he was to transfer from LACRO to USRO. The transfer did not materialize. Please phone Barcella.
- 4) I have been chosen to take the place of London Credit Committee Officials and give my deposition on Thursday. Therefore, I may be unable to reach New York until Friday night but you can reach me, care of Feroze Deane.

They don't call me Lucky Pierre (apologies to Banoun) for nothing.

Kindest regards,

(dictated by from London by Mr. B.A. Palkhiwala)

CC: Mr. Raymond Banoun - Arent, Fox, Kintner, Plotkin & Kahn, Washington, D.C.
Mr. Lawrence Wechsler - Janis, Schuelke & Wechsler, Washington, D.C.

DC 018297

BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.

UNITED STATES REGIONAL OFFICE 300 PARK AVENUE NEW YORK NY 10022 PHONE (212) 715-2800 TELEX 425602 BCCI NY 60 FAX (212) 715-2800

MONEY LAUNDERING ALERT



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Clifford firm served as paymaster in Tampa BCCI prosecution

Performed role before hidden BCCI interest in D.C bank was known

From an account at First American Bank in Washington, D.C., the law firm of Clark M. Clifford, from 1988 to 1990, served as the paymaster in the Tampa money laundering prosecution of BCCI and eight of its employees.

The firm paid the legal fees of all defendants and all BCCI employees who were witnesses in the case. It also paid the fees of the accounting firm of Price Waterhouse, a number of private investigators, and others who were recruited with the firm's blessing to provide services in the Tampa case.

The firm's checks bore the legend "BCCI Legal Defense Fund."

The law firm, Clifford and Warnke, continued as bursar for the defense long after its clients, BCCI S.A. and BCCI (Overseas) Ltd., pleaded guilty to numerous money laundering charges in the Tampa federal district court.

The Clifford firm's influence in the money laundering case, which was the first time BCCI had ever faced criminal charges anywhere, went beyond the payment of fees.

Even after the guilty plea by the BCCI entities, the firm's lawyers were kept informed of discussions at periodic meetings, usually attended by more than 20 lawyers, accountants, investigators and others, devoted to coordinating defense strategies and to "damage control," as one insider puts it.

The Clifford firm was kept closely informed of the course of the trial, and of the evidence produced, by the attorneys it had hand-picked to monitor the case and to represent BCCI's employees.

The guilty pleas by the BCCI corporate entities resulted in a \$15 million "forfeiture" penalty to which the government consented. The plea agreement was roundly criticized at the time as

being too lenient on the bank.

The BCCI guilty pleas also removed the opportunity for government prosecutors, in a public trial, to probe the corporate relationships of BCCI such as its then-secret control of First American Bank.

Clifford and his law partner and protege, Robert A. Altman, are stockholders of First American Bank and sit on its board of directors.

The pleas also precluded chances to explore other money laundering activities of BCCI which are now coming to light.

Altman was at the apex of the team he selected to supervise the coordinated Tampa defense. Within the Clifford firm, John Covin, an attorney, reviewed and approved the multitude of detailed bills that came from the many persons hired to serve on the defense team. The payments reached the millions of dollars.

Altman's field general was Washington attorney and former federal prosecutor, Lawrence H. Wechsler, who, in turn, had two former federal prosecutors, E. Lawrence Barcella and Raymond Banoun, as his principal lieutenants. All three practice law independently and are not affiliated with the Clifford firm.

Below them, a number of independent Washington and Florida lawyers, all of them paid by the Clifford firm, performed the day-to-day services of representing the BCCI employees.

No BCCI employee, including those who were charged with crimes, was dismissed by BCCI even though the defendants had been in prison since October 1988. The accused BCCI employees were convicted in July 1990, after which they were dismissed by BCCI.

At the time of their involvement in the Tampa case it was not yet known that Clifford and Altman may have misled the Federal Reserve Board about the hidden interest which BCCI had acquired in 1981 in the offshore holding company which controls First American Bank.

The role that Clifford and Altman played in BCCI's fraudulent acquisition of an interest in First American Bank is under investigation by the Federal Reserve Board and New York County District Attorney Robert M. Morgenthau.

Clifford and Altman are stockholders of Credit and Commerce American Holdings N.V. (CCAH). That offshore company is the parent of First American Bankshares, Inc., which owns First American Bank.

In announcing a \$200 million civil penalty against BCCI last month, the Federal Reserve Board said that in 1981 Clifford and Altman represented a number of investors who were seeking to acquire an interest in CCAH. The investors said they were doing so with their own money. At the time, there were suspicions that BCCI money was illegally financing the acquisition.

At a hearing before Federal Reserve and other banking regulators in April 1981, Altman said "there is no connection between (CCAH) and BCCI in terms of ownership or other relationship."

At the time of that meeting, money laundering had not yet been made a federal offense, but the Bank Secrecy Act, which was enacted in 1970, required banks to report large currency transactions.

It is not known what investigation of BCCI, if any, was initiated by any agency of the government as a result of that encounter.

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Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D.C. 20006

ROBERT A. ALTMAN

DIRECT LINE 12021 826-4239

February 26, 1990

Robert F. Stoll
Bank of Credit and Commerce
International
320 Park Avenue
New York, New York 10022

Dear Mr. Stoll:

John Kavin has referred to me your letter dated February 16, 1990 concerning the payment of certain legal bills. However, we do not have authorization to pay the \$380,000.00 in fees that you have referenced in your letter from the legal defense fund that we administer.

The legal defense fund is used to pay legal expenses in those instances where we have reviewed and approved the bills that are submitted. While we had earlier agreed to review the bills sent to New York which relate to Florida, those statements were not sent to us for our evaluation. Accordingly, it would be inconsistent with our commitment to BCCI if we were to reimburse New York for the fees you paid when we have no prior knowledge of the bills, or the appropriateness of the amount.

Of course, this appears largely to be an internal accounting issue, and we would certainly remit the \$380,000.00 to the New York office if we are directed to do so by London, as we must account for all expenditures from the fund. I am therefore sending a copy

DC 018183

HN 0014

Robert F. Stoll
February 26, 1990
Page 2

of this letter to London so that I may receive advice
and direction.

I trust this is responsive to your inquiry.

Sincerely,



Robert A. Altman

cc: Mr. Swaleh Naqvi
Mr. B. A. Palkhiwala
John F. Kavin, Esq.

DC 018184

HN 0015

Privileged & Confidential

May 8, 1990

MEMORANDUM TO THE FILE

RE: Meeting with Federal Reserve Staff

A meeting was held at the Federal Reserve beginning at 6:00 PM with William A. Ryback (Deputy Associate Director, International Supervision and Applications, Banking Supervision and Regulation Division), Don E. Kline (Associate Director, Bank Holding Companies, Banking Supervision and Regulation Division), James Keller (Legal Division), and a Mr. Barnes to discuss with the staff any concerns that may have arisen following the publication of articles in Regardie's and the Wall Street Journal. In this regard, we also wished to discuss Mr. Ryback's earlier inquiry concerning any BCCI loans to First American shareholders in connection with the acquisition of Financial General by the investors, or which are otherwise of interest.

Mr. Tuttle stated that the purpose of the meeting was to answer any questions the staff might have arising from the articles, to address any issues about BCCI's relationship with First American, and to report to them current information available concerning any BCCI funding of the 1982 acquisition of Financial General. Mr. Altman reviewed a letter from BCCI President, Mr. Svalah Naqvi, a copy of which had previously

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been sent to Mr. Ryback, advising us that BCCI had not financed the acquisition in any respect. See Attachment A. Mr. Altman further reported that follow-up letters had been sent to each of the First American shareholders requesting confirmation that the original purchases were made from personal funds and seeking authorization to review with BCCI loans made subsequently to the investors which may have been secured by a pledge of CCAH shares. See Attachment B.

Mr. Ryback indicated he was not really interested in subsequent loans from BCCI, but asked instead that we seek Mr. Naqvi's permission for Mr. Ryback to share the Naqvi letter with other supervisors. Specifically, he would like to provide a copy to the regulatory authorities overseas which apparently had first raised the matter with him. He did not identify the regulatory body or bodies. The suggestion was that by forwarding to them a copy of Mr. Naqvi's letter, he should be able "to close his file on this matter." Mr. Altman said he would contact Mr. Naqvi and request such permission; we did not anticipate any objection. Mr. Ryback will be traveling for the next 10 days or so and we should secure a response by the time he returns.

Mr. Altman reviewed our reaction to the Regardie's and Wall Street Journal pieces, and advised them of a subsequent meeting with two reporters from the Washington Post. He reported that documentation developed during the regulatory proceedings approving the applications refuted the basic

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allegations in the Regardie's article as to (i) the allegedly unsavory background of the investors and (ii) the suggestion that federal and state regulatory approvals had been obtained on the basis of mere representations by legal counsel. Copies of correspondence from the N.Y. State Banking Department to Congressman Rosenthal and Congressional testimony by former Federal Reserve Board Chairman, Henry Wallich, were furnished to the Board staff. See Attachments C and D. Mr. Keller noted that the Board staff had in fact undertaken a very thorough regulatory review of the transaction, and he agreed with the assessment of the N.Y. Banking Department letter and the Wallich testimony that the review was extraordinarily comprehensive.

Mr. Altman further advised that testimony in the Tampa criminal proceedings by the government's chief witness appeared fully to rebut the Wall Street Journal contention that widespread money laundering was known and condoned at the highest levels of BCCI senior management. In fact, the testimony establishes to the contrary: such activity was contrary to clear BCCI policies and those engaged in such wrongdoing at lower levels had to keep it secret from senior management.

Mr. Altman next turned to the issue of the BCCI/First American relationship. The acquisition of BCCI by Abu Dhabi was noted (along with reported sweeping management changes) which substantially lessened the shareholder overlap between

- 4 -

the companies. Mr. Altman, however, advised of efforts to pursue the issue raised by Mr. Ryback and stated that identical letters had been sent to each CCAH shareholder requesting confirmation that their acquisition of First American had been with personal funds and seeking further information regarding loans, if any, from BCCI that might have been granted by a pledge of CCAH shares. Copies of the letter sent to Kamal Adham were given to the Board staff as a sample. See Attachment B. Mr. Altman reported that we had received a response from Adham (confirming BCCI had not financed the acquisition), that we were expecting more responses, and that we would be happy to provide the Board staff with such letters when they are received.

There was then discussion regarding the regulatory implications of possible BCCI loans to the shareholders (subsequent to the original acquisition) that may be secured by a pledge of CCAH shares. Mr. Altman pointed out that he had no concrete information, but had heard reports of loans by BCCI to certain shareholders in amounts ranging from \$400 million to over \$1 billion. He did not know how accurate these reports were, or what would be the purpose of any such loans. Mr. Altman further indicated that an informal, off-the-record inquiry had been made of Price Waterhouse who advised that there were loans to shareholders that appeared to be properly documented. However, Mr. Altman said he did not get any specific information. We did understand assets were securing

such loans and believed the collateral was CCAH stock in some instances. (We also noted that there were no CCAH bearer shares, and that there was no formal pledge of stock recorded on the books of CCAH.) Finally, Mr. Altman indicated his understanding that the shareholders from Abu Dhabi have never borrowed from BCCI or any other bank. We emphasized again that this information could not be entirely reliable; it was only what we had heard. In this regard, we stated that the shareholders have never advised us of their financial dealings after the acquisition was completed in 1982.

Mr. Kline expressed some interest in BCCI loans, noting that Mr. Naqvi's letter appears worded not to make representations about post-acquisition lending against CCAH shares. We agreed that Mr. Naqvi advises such loans have been made, though no security for the loans is detailed. Mr. Tuttle suggested that, even assuming that there were significant borrowings against CCAH stock by First American shareholders, the key regulatory issue is only whether BCCI is in some way exercising a controlling influence over First American. There is no legal or regulatory prohibition against borrowing from BCCI, a view apparently shared by the staff. As to this basic control issue, there can be no question that the current U.S. management of First American runs the operation and establishes and implements the Company's policies and programs. This has been the case from the beginning and has been broadly acknowledged by regulators themselves, including in the recent examination

by the Richmond Fed in connection with its review of the application to retain ownership of the Bank of Escambia, N.A. It has also been observed by state banking officials such as Commissioner Bailey in Virginia. Mr. Altman invited the Federal Reserve to audit the Company or talk to any First American senior officer if there were any questions at all on this point.

Mr. Ryback concurred in this view, and emphasized that his limited concern was only to inquire as to any BCCI financing of the original acquisition in view of information supplied him by foreign supervisory authorities. We agreed again to get permission from Mr. Naqvi to release the BCCI letter.

Following this discussion, Mr. Altman took the opportunity to advise the Board staff as to further developments regarding any possible sale or merger of First American, as well as the possible purchase by Sheikh Zaid of some small amount -- 8 percent or 10 percent -- of CCAH stock. He emphasized that such matters were still uncertain -- that no final decisions had been reached, but that he wanted the Board staff to know that such subjects were under consideration. Mr. Altman noted that the Company had received expressions of merger interest from a number of southeast regional banks which we were considering and there was some indication of interest by the Government of Kuwait (although the degree of such interest had not been made clear). Another possibility

- 7 -

is that Abu Dhabi might seek to acquire the Company. Mr. Ryback lightly noted that the deals involving a southeast bank or Kuwait were preferable, given recent developments with Abu Dhabi's acquiring control of BCCI.

The meeting lasted approximately 45 minutes. It was emphasized by Mr. Altman and Mr. Tuttle that good relations with the Board were of paramount importance and that if the staff had any concerns or questions they should immediately contact us. We would endeavor to secure any information they wished to obtain.

Robert A. Altman
Baldwin B. Tuttle
J. Griffin Lasher

Attachments
00071

[Whereupon, at 6:35 p.m., the subcommittee was adjourned, to reconvene at 10 a.m., October 25, 1991.]

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

FRIDAY, OCTOBER 25, 1991

**U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.**

The subcommittee met, pursuant to notice, at 10 a.m., in room SH-216, Hart Senate Office Building, Hon. John Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry and Brown.

Senator KERRY. This hearing will come to order.

If I could ask the panelists to take their seats at the panel, that would be helpful. Do we have everybody here? [Pause.]

Senator KERRY. Good morning.

The Subcommittee on Terrorism, Narcotics, and International Operations will hear this morning from Acting Director Richard Kerr of the Central Intelligence Agency and from three representatives of the State Department: Mr. Alan Kreczko, the Deputy Legal Adviser, Laurence Pope, Associate Coordinator for Counter-Terrorism, and Grant Smith, the Deputy Assistant Secretary for International Narcotics Matters.

Among the many significant questions that are raised relative to BCCI are the degree to which the intelligence community had knowledge of BCCI's involvement in this country and elsewhere and the steps that were taken to communicate that knowledge of various agencies of our government.

Questions are raised about the CIA's use of a bank that had been known at an early time to be engaged actively in an illegal ownership in this country.

The first inkling that we had as a committee that there was an intelligence community involvement with this bank was three years after the beginning of this investigation. It was then when we first learned of a CIA report from former Customs Commissioner, William Von Raab, who told my staff that Mr. Robert Gates had provided him with a report on BCCI when Mr. Von Raab requested information on the bank in the course of the C-Chase operation in Tampa.

According to Mr. Von Raab, Mr. Gates referred to BCCI at that time as the "Bank of Crooks and Criminals." Soon thereafter, Mr. Von Raab learned from a different source of the existence of intelligence accounts at BCCI.

Regrettably, there was a problem in really getting answers to the questions that we posed thereafter. We contacted the CIA twice and were informed that the report did not exist.

Two months later, after pressing significantly, the CIA "found" the report. The report was delivered to the Senate Intelligence Committee in a classified form, on the ground that it contained "extraordinarily sensitive information."

When I received the report—and I say this as somebody who respects the notion that there is incredibly intelligence-oriented, sensitive information, and it does exist—but when I reviewed the report, just as a matter of common sense and some basic judgment, I must tell you I found nothing, in my mind, in it that could be classified as "extraordinarily sensitive," let alone anything which justified it being classified at all.

It contained the revelation that the CIA knew back in 1986 that BCCI secretly owned First American and had told Federal law enforcement of that fact. That fact has since been declassified by Mr. Webster prior to his departure at my request.

In the meantime, however, the rest of that report remains classified for reasons that I must tell you, frankly, I find very hard to understand.

Subsequent to that, my staff, who were cleared at top secret level, requested a briefing of what the CIA knew about BCCI, and we were provided with briefers who were totally unfamiliar with the basic facts about the bank, including even the identity of a former head of Saudi intelligence, Mr. Kamal Adham, who was a central player in BCCI, whose name we've heard many times in the course of these hearings.

In early August, on the very day that Congress was leaving for recess, after all of our inquiries, Mr. Kerr, who is here today, appeared in public to give a speech to a group of students at the National Press Club, and, indeed, they were able to learn what we were not, which was that the CIA, itself, it made use of BCCI.

There were no questions permitted at the time. But I must say that it struck me as ironic that a group of students at the Press Club were learning, formally from the Acting Director, of this fact while a Senate subcommittee had been pressing to get some information on it for a fair amount of time.

Added to these facts is the fact that Mr. Kamal Adham, the lead shareholder in First American, apparently had a lengthy relationship with the intelligence community, and at least one other shareholder in the original takeover of Financial General Bankshares was a business partner of the former CIA Director and Ambassador to Iran, Richard Helms.

Beyond this, we have statements by the Finance Minister of Pakistan, Mr. Sartaj Aziz, who told the London "Financial Times" on July 25, 1991, that it was his understanding that the CIA made use of BCCI in his country to provide rewards to the Afghan rebels and Pakistani military officers coordinating that movement.

This past week, we have received additional testimony from an officer within BCCI who, in his sworn testimony, stated that the former head of BCCI, Mr. Agha Hasan Abedi, believed he had been targeted by the CIA. That is not a new belief by many people in many countries. But additionally, it was felt by some of the officers

working with him that there had been some sort of relationship that had been created.

Mr. Sakhia, one of the top officers of the bank in this country, also testified that he was contacted by the FBI for help in unraveling the involvement of BCCI in arms sales to Iran as part of the Iran-Contra Affair.

There are documents which we have obtained independently from BCCI that confirm a participation in planned arms deals in 1985 and 1986. While some of these deals may have been aborted, in the end, they do appear to have been negotiated with important Iran-Contra figures, like Adnan Khashoggi and Manusher Ghorbanifar, who is the arms merchant used by Oliver North and the NSC for negotiations with Iranian "moderates."

Yesterday, we learned for the first time from Mr. Altman that his bank, in fact, was a depository of the CIA, despite the fact that the CIA knew that First American was secretly owned by BCCI.

These are the connections that obviously raise questions.

Now, again, I want to reiterate—and I say this adamantly—I am not in any sense of the word an opponent of the CIA's need to have bank accounts and to maintain secrecy. This committee respects that concept, the chairman respects that concept, and I understand that there will be a need to have some testimony in private session. We will do so.

Similar questions arise with respect to the State Department. There were many signals in many different countries with respect to the "culture of criminality," as it has been referred to by the Bank of England, though the Bank of England, obviously, didn't respond to that any too soon, either. The question is whether or not in the course of State Department efforts and so forth there was some knowledge of the bank's criminality and some failure to act.

There is a propensity up here in the U.S. Congress to look at things after the fact, and it's all clear as a bell, and people make a lot of judgments about things that I am not sure any of us would have made or could have made at a particular time, without the retrospective made available.

So, this is fact finding and not finger pointing. I hope all of you will help us to understand exactly what took place here so that we can try to make some judgments down the road.

I welcome all of you here and look forward to your testimony. I understand you will have some opening statements, and after that, we can proceed with the questioning.

Why don't we lead off, Mr. Kerr, with you, if we can. Then, after your opening, I'd like to get the openings from the State Department. Then we will come back.

Does that empty chair represent the gulf between the CIA and the State Department?

Mr. KERR. No, I think it's an accident.

Senator KERRY. It's an accident, like most. All right.

Mr. KERR. Quite simply, I didn't know that we were going to have quite this array here this morning.

Senator KERRY. Well, actually, I didn't, either. But we welcome you. Thank you.

[COURT REPORTER'S NOTE: Due to an inadvertent oversight, today's witnesses, Mr. Kerr, Mr. Kreczko, Mr. Pope, and Mr. Smith, were not sworn in prior to giving

their testimony. However, following their testimony and before the close of the hearing, Chairman Kerry swore in the witnesses in a retroactive swearing or affirmation.]

TESTIMONY OF RICHARD KERR, ACTING DIRECTOR OF CENTRAL INTELLIGENCE

Mr. KERR. Mr. Chairman, thank you.

First of all, I might say just in a general comment that, as an intelligence officer for 30 years, I find myself a little reluctant in an open hearing to talk about intelligence, intelligence sources, and intelligence methods, and the information that we acquire through that process.

You pointed out, for instance, that you saw a report, or at least heard about a report, that you didn't find particularly——

Senator KERRY. Would you pull the mike a little bit closer, if you would. That would be helpful. Thank you.

Mr. KERR [continuing]. That you saw a report that you didn't find the information in particularly sensitive. I think often that is true.

But our concern is not only the information that we get, but also the way we get it. Sometimes you can get information overtly, out of a newspaper; and sometimes you can get it clandestinely. It is the sources and the sensitivity of those sources sometimes that makes the difference between how we classify and not the information that is contained in the report.

We are, and I am, responsible, and you have indicated you are clearly not trying to go beyond this process into the details of the intelligence operations. I appreciate that.

Senator KERRY. Let me just say that I totally agree. We're running into a lot of that in the MIA/POW issue. Clearly, sources indicate an enormous amount, and there is obviously a reason to keep sources quiet, to protect them, sometimes their lives, let alone the network. I understand that.

In this particular memo, it was just a summary written by somebody in the Agency, with no sources mentioned. I tried to separate that.

Mr. KERR. I understand. But sometimes it's rather difficult, and maybe it's difficult for us at times to separate the information we get from the way we get it. So we are often looking at how we get it as the sensitivity, rather than just the information.

I might also say that, in this case, it is extremely important, from my perspective, to protect sources and methods because, if I'm going, as an intelligence organization, if we are going to continue to collect against areas of importance to national security, I need to protect those sources. I mean, the very areas I'm going to talk about today are not areas that are history. They involve activities and things that are ongoing and that are very important to the future.

At the same time, one of the reasons I'm here is because I think it's important to clear the air, and I think it's important to state what CIA's and the intelligence community's involvement with BCCI was. I intend to do that as directly and as forthrightly as I can, while also trying to protect the information as best I can.

I have a statement that's going to set it out in an unclassified form. As an introduction, let me state that CIA conducted a thorough review of its activities over the past several years with regard to BCCI. We've done that from the management point of view, from our own intelligence point of view, and an independent investigation has been conducted by our statutory Inspector General.

The results of our look at this, including the report by our statutory Inspector General, were made available to the Senate and House Intelligence Oversight Committees, which are our principal funnels into the Congress. The Senate Intelligence Committee has conducted its own independent investigation of CIA's involvement with BCCI with the full cooperation of the Agency and of the intelligence community. We expect their report will support our findings on this issue and the points that I'll make subsequently.

There have been, from my perspective, a number of outrageous and unfounded allegations of illegal or improper relationships between CIA and BCCI that have been made in the press and elsewhere. I want to respond to several of those allegations directly.

But first, I'd like to provide the committee with a perspective of the Agency's foreign intelligence collection program against BCCI.

CIA's foreign intelligence collection focus on BCCI began in the mid-1980's, due to their suspected involvement in narcomoney laundering. As a result of an initial, successful, intelligence collection operation, a larger operational program was developed in the timeframe from 1986 to 1990.

This operation focused on the people, the mechanisms, and the way that BCCI laundered narcotics money.

As a byproduct of our effort against BCCI money laundering, the CIA collected limited intelligence on such things as the manipulation of financial markets, weapons proliferation, and terrorism. CIA reported in early 1985 that BCCI had succeeded in gaining control of Financial General Bankshares in late 1981. As you know, Financial General Bankshares later became First American Bankshares.

During the period from 1979 to 1991, several hundred reports were produced by the Agency's Directorate of Operations discussing BCCI's activities. BCCI was also discussed in a number of finished Directorate of Intelligence studies, analytic studies, where information about the organization was tied into larger discussions of terrorism and counter narcotics.

The CIA's intelligence on BCCI was disseminated to a number of U.S. Government intelligence consumers, including Treasury, Customs, Commerce, DEA, NSA, DIA, Federal Reserve Board, the Department of Energy, U.S. Trade Representative, the Department of State and the FBI.

They were distributed during this entire period, as information was received, as individual reports.

Now, I might add that not all of the reports went to all of the consumers. Some reports were earmarked for particular people, and some were sent to a larger number of customers. The distribution of some was rather limited.

I might also add that's one issue where we have looked back at our own dissemination and are going to try to tighten it up a bit to be a little more consistent than we have been in the past, and try

to make sure that we have a little better focus on our dissemination of reporting on issues like this in particular.

As for allegations in the media of CIA illegal or improper relationships with BCCI, let me go down those directly.

CIA did not assist or encourage, either by action or implication, any wrong-doing on the part of BCCI or its employees. CIA took no action, including withholding information, to influence or impede any existing or potential civil or criminal investigation or prosecution of BCCI. In addition to providing information concerning BCCI activities to law enforcement agencies, CIA registered no objection when it was consulted by law enforcement agencies regarding whether any CIA equities might be imperiled by an investigation or a prosecution.

To the contrary, in all the instances where the Agency was consulted, CIA responded that law enforcement action would not impact on Agency interests.

The Agency did not acquire intelligence on the decisions made by or the role played by major foreign shareholders in the operation of BCCI, including Kamal Adham and Adnan Khashoggi. I'll go back to this point in a moment.

With regard to BCCI in Panama, the Agency collected intelligence on the use of BCCI Panama by major narcotics traffickers. With regard to the plans and intention of the Chairman, Abedi, and senior BCCI management, the Agency collected and disseminated intelligence on the overall corporate strategy of illicit activity in international financial markets. The allegations that the Agency placed Abedi on a watch list or had a direct or indirect relationship with him, or recruited him for CIA activities, are baseless.

CIA was not involved with any alleged BCCI black network of thugs and assassins, as described in the press.

CIA was not involved with, nor did it have knowledge of, any use of BCCI for the sale of arms to Iran or the diversion of funds for the Nicaraguan Contras in connection with the Iran-Contra Affair.

BCCI was not a major banking mechanism used by the Agency for the support of covert foreign intelligence operations. It was used on an extremely limited basis for legal banking transactions. Accounts were also opened with the bank to facilitate acquisition of information concerning the bank's illegal activities.

BCCI management was not witting of Agency involvement in these activities. Let me say that again, because I think that's an important issue and one that we've heard some news about. That is that BCCI management was not witting of Agency involvement in these activities.

In summary, from my perspective and in our review of it, I think CIA did its job and did it well. The Agency collected and disseminated strategic foreign intelligence on BCCI's illicit foreign financial activities to policy makers beginning several years ago. CIA also disseminated that foreign intelligence through appropriate channels to the intelligence and law enforcement communities.

CIA conducted a detailed and thorough investigation of CIA's activities regarding BCCI. No evidence was found indicating any improper or illegal activity by CIA, and we feel confident that the

Senate Intelligence Committee's investigation, as I said earlier, will reach that same conclusion.

We have asked the SSCI to brief the chairman and other members of this subcommittee on its findings.

I would like to make one point that I think is important to put CIA's activities with regard to BCCI in some appropriate context.

First of all, BCCI was a target. But it's important, I think, to understand that we are not an investigative agency or a law enforcement agency. What we were interested in doing was not trying to find wrong-doing per se and trying to follow the individuals or detail their involvement. Our focus was on the activities that BCCI was involved in with regard to drug traffickers or trafficking, money laundering, terrorism, or arms deals. We were focused on larger strategic problems and issues, not on the bank itself or the individuals involved.

That's one of the reasons why, when you ask us in some of the interrogatories that you've given us for detailed information about individuals or about specific actions, we replied that in effect they were not targets of our particular collection. We were focused on a set of activities that really went beyond BCCI, but that were using BCCI as a mechanism. I think that's an important consideration.

As you've indicated, I would be glad to expand on my unclassified comments in a closed hearing in additional detail.

Senator KERRY. Well, what I'd like to do, Mr. Kerr, is get you to expand in open session a little bit on certain areas here that I think ought to be a permissible area of inquiry. As we discussed previously on the telephone, where we clearly understand that we're moving into an area that might compromise something, then we'll do that privately. But there are some things that I think we could articulate a little bit further that are raised just by your opening testimony here. I'd like to come back to it, if I can.

Who's going to lead off?

Mr. Kreczko. Am I pronouncing that correctly?

Mr. KRECZKO. Yes.

Senator KERRY. Would you just state your name and who you are for the record and go right ahead.

TESTIMONY OF ALAN KRECZKO, DEPUTY LEGAL ADVISER, DEPARTMENT OF STATE

Mr. KRECZKO. Thank you, Mr. Chairman.

I'm Alan Kreczko, Deputy Legal Adviser at the State Department, and I'm pleased to introduce the Department's testimony concerning the foreign policy implications of the Bank of Commerce and Credit International scandal.

As we emphasized in prepared statements submitted to this committee in August, the State Department has viewed this matter from the outset of the revelations of BCCI's control of First American as one properly conducted and controlled by law enforcement and bank regulatory officials.

The Department has undertaken to cooperate to the fullest extent in assisting the various investigative efforts of the Federal Reserve and the Department of Justice. With the continuing support of our embassies and consulates abroad, the Department regu-

larly provides direct assistance to the Federal Reserve and to the Justice Department in connection with their respective investigative efforts. Questions concerning the conduct of those investigations would need to be put to the law enforcement agencies involved.

The committee has sought the Department's views on the foreign policy implications of the BCCI scandal. We will try to be fully responsive to the committee's questions.

Of course, our assessments are preliminary, since various domestic and foreign investigations are still underway, and the full extent of the implications of this case may not have been disclosed. Moreover, an extraordinarily wide range of allegations has been made concerning BCCI. While the Department has conducted a review of its own files, we are not an investigative agency and have never been involved in foreign investigations of the various accusations that have been leveled against BCCI and its officers.

I am accompanied today by several Department representatives, who will address areas that the committee has indicated to be of specific concern. Sitting at the witness table with me are: Grant Smith, Deputy Assistant Secretary for International Narcotics Matters, who will testify as to what the Department knows about BCCI's role in narcotics operations and money laundering; and Laurence Pope, Associate Coordinator for Counter-Terrorism, who will testify as to what the Department knows about BCCI's role in terrorism.

Sitting behind me and available to answer questions as to what the Department knows about the foreign policy implications of the BCCI scandal in particular regions of the world are: Richard McKee, Director of the Office of Arabian Peninsula Affairs, and Roberta Jacobson, Deputy Director of the Office of Policy Planning and Coordination in the Inter-American Bureau.

Mr. Chairman, before turning to these individuals to address specific areas in detail, I would like to provide a general overview.

First, as I've indicated, the Department has reviewed its records for material related to BCCI. The Department has relatively few records which pertain to BCCI from the 1970's or early 1980's. We have some reporting from the late 1970's on the establishment of BCCI branches in various countries. We have also located a 1978 biographical sketch of Abedi, which noted that BCCI engaged in "questionable, if not illegal" activities, referring to BCCI's effort to acquire Financial General Bankshares.

In 1983, we received a request from New York State authorities for information about BCCI when BCCI sought to establish an agency office there. We solicited the view of our Embassy in Luxembourg and specifically asked for any comment on trafficking in arms or controlled substances.

Our embassy in Luxembourg responded at the time that BCCI was a prominent and reputable financial institution. Thus, our records from this period contain very little suspicious material about BCCI.

This situation changed markedly in the mid-1980's, when the Department became aware of BCCI's involvement in money laundering and terrorism. Mr. Smith and Mr. Pope will explain, subject to

classification considerations, what the Department knew and how it responded.

With respect to the foreign policy implications of the BCCI scandal, I would distinguish between the implications of our law enforcement actions on U.S. bilateral relations with the key countries concerned, and the effects of the BCCI scandal itself in various countries and regions.

As to the former, U.S. law enforcement actions have not, to date, had a negative impact on bilateral relations with the key countries affected.

Our relations with the United Arab Emirates remain very good. We have explained to the government that our actions are motivated solely by our efforts to enforce the law, and the United Arab Emirates has indicated from the outset its desire to cooperate with U.S. investigators. An investigative team from the Federal Reserve was received in Abu Dhabi last spring, and the UAE Government subsequently made available a large number of BCCI documents to the Federal Reserve.

More recently, the UAE Government has received a team from the Department of Justice.

In Pakistan, the initial public response was that the actions taken by the U.S. and the U.K. were politically motivated and reflected anti-Muslim sentiment. However, as the breadth of the scandal has been revealed, Pakistani depositors have shifted blame to BCCI itself.

There has been extremely close collaboration with the United Kingdom, particularly between the Federal Reserve and the Bank of England. There was the potential for a serious foreign policy dispute with the United Kingdom when the House Banking Committee subpoenaed the Federal Reserve for documents provided them in confidence by the Bank of England. Fortunately, an accommodation was reached with the Bank of England concerning congressional access to certain of those documents.

However, we remain concerned that the issuance of the subpoena could have an adverse impact on the willingness of countries to cooperate in connection with subsequent U.S. investigations.

The Department has also monitored more generally the impact of the BCCI scandal in countries across the globe. While the precise dimensions of the impact cannot be assessed until the various domestic and foreign investigations of BCCI are completed, we foresee the following: damage to the economies of certain countries; international legal tangles over regulatory jurisdiction, bank confidentiality, and the disposition of the BCCI group's remaining assets, perhaps prompting reassessment of laws and regulations governing international banking; and, in certain countries, adverse political fallout.

While our analysis is necessarily preliminary at this stage, we can make a few observations on the current situation.

The political fallout within Europe from the BCCI scandal has been primarily limited to the United Kingdom, where the government's oversight of BCCI has become a domestic political issue. The political impact in other European countries appears marginal.

The scandal appears to have had limited political or diplomatic impact in Africa. However, the economic consequences in Africa

could be considerable. According to press reports, Cameroon, Zimbabwe, and Zambia together could lose up to \$200 million in assets. The BCCI shutdown could also adversely affect business activity in the Sudan, Botswana, Sierra Leone, and the Ivory Coast.

In Latin America, the impact appears to be primarily political, rather than economic, with governments opening investigations on BCCI activities and possible political corruption in Argentina, Peru, and Jamaica.

In East Asia, local depositors have been hurt by the closing of numerous BCCI branches. The decision of the Government of Hong Kong to liquidate the Hong Kong branch of BCCI led to angry protests, but it does not represent a major blow to the Hong Kong financial system.

In the Arabian Peninsula and South Asia, some have chosen to see imperialist and Zionist motivations behind the West's attack on what is popularly viewed as a successful Muslim and Third World bank. In the United Arab Emirates, there is no evidence the scandal has eroded the hold on power of the rulers of Abu Dhabi or their popular base of support. The bank's failure may, however, create certain cash flow problems for the UAE.

The ramifications in Pakistan will depend, in part, upon what is confirmed of the press allegations that BCCI operated an arms and drug smuggling operation from Pakistan.

Closure of BCCI's four branches in Bangladesh will adversely affect its 70,000 individual depositors.

The impact of the BCCI scandal on terrorism and narcotics trafficking will be limited. Although there may be temporary disruptions of some financial flows, most terrorist groups and drug traffickers will probably be able to redirect funding transfers through other institutions. Over the longer term, however, the scandal may lead international banks to be more scrupulous about their banking practices.

With these introductory comments, Mr. Chairman, I would ask Mr. Smith and then Mr. Pope to comment in more detail on BCCI's role in money laundering and terrorism respectively.

Thank you.

Senator KERRY. Thank you very much. Mr. Smith.

TESTIMONY OF GRANT SMITH, DEPUTY ASSISTANT SECRETARY, INTERNATIONAL NARCOTICS MATTERS, DEPARTMENT OF STATE

Mr. SMITH. Good morning, Mr. Chairman.

I am Grant Smith. I have been Deputy Assistant Secretary in the Bureau of International Narcotics Matters in the Department of State since October 11.

My predecessor, Parker Borg, outlined in his statement in August what we know about BCCI and actions we have taken to deal with narcotics money laundering.

I'd just like to draw a few comments from that statement.

First, it is important to note that, while the State Department plays an important role in money laundering policy formulation, it is not the lead agency in implementation. We cooperate, however, on a day-to-day basis with those which have the lead on implemen-

tation: Justice, Treasury, the Drug Enforcement Administration, Customs, and other agencies.

The information we have received is often based on the outcome of successful cases by those law enforcement agencies.

As a result of growing administration concern and congressional concern about narcotics money laundering, we decided to add a specific money laundering chapter in our annual International Narcotics Control Strategy Report, or INCSR, beginning with the March, 1988, report. The 1991 report contained a money laundering chapter of 63 pages, with detailed reports covering 122 governments.

The 1989 INCSR provided 13 paragraphs of discussion of the charges against BCCI and its officers resulting from one Customs operation. Followup reports on this investigation of BCCI were provided in the 1990 and 1991 INCSR reports.

What are the factors which made BCCI suitable for money laundering? Setting aside those instances where BCCI managers knowingly promoted money laundering, BCCI seemed attractive to traffickers for the same reasons that other banks have been found attractive.

First, traffickers seek international banks that are sophisticated in wire transfers, that have branches in those parts of the world where they operate, and which permit quick retrieval of funds.

Second, traffickers seek banks in those countries where national banking laws afford maximum secrecy to depositors, permit nominee accounts, and do not provide for close monitoring of cross border transactions or currency movements. These are lessons which we have learned over the past few years.

I would now like to focus on some of the actions we have taken to restrict narcotics related money laundering.

Working bilaterally and through multilateral organizations, the United States has become a leader in the effort to expand the global consensus on good banking practices to prevent narcotics money laundering. Cooperation between the financial and enforcement communities in many governments has improved considerably.

This has been influenced by the ratification of the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the Vienna Convention, the adoption of the recommendations of the Financial Action Task Force, the approval of the European Community's new policy directive, and other commitments, and especially by the deliberations which led to the drafting and approval of these international accords.

In accord with the Vienna Convention and the Financial Action Task Force recommendations, numerous countries have adopted or are now deliberating on provisions which criminalize money laundering, regulate the flow of currency and monetary instruments, mandate records of currency and other monetary instrument transactions, require declarations of beneficial owners of accounts, and compel disclosure of suspicious transactions.

The challenge, however, is becoming more complex. As we noted in our 1991 report, we are detecting money laundering schemes involving a second tier of countries which were not of major concern to us 3 years ago. Traffickers, and more particularly their profes-

sional money managers, are actively seeking those countries and territories where there are central banks with minimal capabilities, financial systems with limited controls on foreign exchange, and restrictive bank secrecy practices. We are responding by extending the dialog throughout the world.

While compliance with the Vienna Convention and the Financial Action Task Force recommendations will remain high priorities, the challenge for the future will also include the application of these same standards to nonbank financial institutions.

We need to work to tighten requirements for incorporating or licensing businesses which might engage in financial transactions or make use of bearer shares or certificates. We need to develop means to regulate exchange houses and other traditional family financial systems, which are at the core of financial exchanges in many developing countries around the world.

In summary, Mr. Chairman, we have been aware of BCCI's involvement in narcotics money laundering for several years and have indicated that awareness in our reports to Congress. Working with officials at Justice and Treasury, we have formulated recommendations for the Financial Action Task Force and other multilateral organizations, as well as for use in our bilateral negotiations with other financial center countries on cooperative countermeasures.

We have made important progress in the last few years, but there is a lot more to be done.

Senator KERRY. Thank you very much, Mr. Smith. Mr. Pope.

**TESTIMONY OF LAURENCE POPE, ASSOCIATE COORDINATOR
FOR COUNTER-TERRORISM, DEPARTMENT OF STATE.**

Mr. POPE. Thank you, Mr. Chairman.

Mr. Chairman, I am Larry Pope, Associate Coordinator for Counter-Terrorism for the State Department.

On August 1, Peter Burleigh submitted a prepared written statement for the record. His statement summarized the links between BCCI and terrorism as follows.

In 1986, the intelligence community developed and disseminated information that linked the Abu Nidal organization and its activities to a BCCI branch in Europe through the use of front companies. The ANO traded profitably—

Senator KERRY. What's the date on that, again? I'm sorry?

Mr. POPE. 1986, sir.

Senator KERRY. 1986.

Mr. POPE. The ANO traded profitably and successfully in weapons, construction services, and other business enterprises. Based on the information developed by the intelligence community, we launched a major diplomatic effort to have the concerned governments, which included the previous communist regimes in East Germany as well as Poland, expel the ANO personnel responsible for these businesses and to close down the companies themselves.

The efforts we made with other governments to disrupt the ANO's commercial activities were successful. The business front companies that financed a major portion of ANO's activities have been shut down. Since the August 1 hearing, the full report pre-

pared in 1987 on the ANO front companies on which Mr. Burleigh's statement was based has been declassified. Copies of that report have been provided to Subcommittee staff.

We have continued to review the available information with regard to BCCI's connections to international terrorism. We have not uncovered any information indicating that the ANO or any other terrorist group received financial backing from BCCI.

In a few instances, terrorist groups other than the ANO and one state sponsor of terrorism maintained accounts with BCCI branches. I regret that I'm unable to be more specific in a public hearing.

Mr. Chairman, at the request of the committee staff, we have also looked into the allegations which have been made in the press about Mr. Mohammed Hammoud, a Lebanese businessman and shareholder in BCCI, who died last year, with regard to his possible links to terrorist groups like Hizbullah. We do not have information which would support these allegations.

Subcommittee staff has also asked about a possible connection of the Qassar brothers to BCCI. Mondher and Ghassan Qassar have been notorious for their involvement in an arms and narcotics smuggling network which has provided revenue for the operation of several terrorist groups, including the Abu Nidal organization.

The white paper, which we have made available to the committee, discusses their activities in detail and their close connection to the business activities of the ANO, which we worked successfully to breakup.

We also know that the ANO had a banking relationship with BCCI. But we are not aware of evidence linking the Qassar brothers to BCCI directly, although this is plausible given their connections to the ANO.

As investigation into BCCI affairs by appropriate law enforcement agencies here and overseas continues, we may learn more. We will continue to followup any leads aggressively from the counterterrorism point of view.

Thank you.

Senator KERRY. Thank you very much.

Let me begin, if I can, well, let me sort of run across the board here.

First reports of the State Department on terrorism were in 1986?

Mr. POPE. First reports of the connection between BCCI and the Abu Nidal organizations.

Senator KERRY. Were in 1986?

Mr. POPE. That's correct, sir.

Senator KERRY. And drug involvement, money laundering, first knowledge?

Mr. SMITH. Actually, first knowledge was in 1987, from an investigation which was then underway and which was mentioned in our 1988 report without giving the name of the bank. We were able, in the 1989 report, to mention BCCI specifically.

Senator KERRY. Well, that was publicly. You had no other knowledge of their involvement in money laundering or drug activities prior to that, even with the existence of five or so branches in Medellin?

Mr. SMITH. We would have seen the earlier reports. But the specific details were provided by the investigations which were underway in 1987.

Senator KERRY. So you relied on the law enforcement investigations for your knowledge?

Mr. SMITH. That was the primary source of our knowledge. Yes, sir.

Senator KERRY. You didn't gain it through State Department personnel in Colombia?

Mr. SMITH. No, sir.

Senator KERRY. You didn't gain it from State Department personnel in Panama?

Mr. SMITH. No, sir.

Senator KERRY. Or any other Latin American countries?

Mr. SMITH. No, sir.

Senator KERRY. There have been no reports, no cables, no information whatsoever in the State Department about banks' involvement in money laundering prior to that?

Mr. SMITH. I believe we've done a complete search of our files and this is what we've come up with, sir. We can check again if you wish. But we have conducted a search.

Senator KERRY. Well, if you're convinced you've done a complete search, I don't want you to—I mean, if you've done a complete search—and I see heads nodding—I take it at face value that that's when you had your first reports.

Mr. KERR. What circumstances led to the CIA becoming interested in BCCI originally, do you know?

Mr. KERR. Well, Senator, as I indicated earlier, we had an operational lead early on in the mid-1980's that led us to focus on it, that identified it with money laundering. So that initial focus turned around the issue of narcotics money laundering, and that provided the impetus for the future focus of collection, which led to a variety of others.

Senator KERRY. And that began in the early 1980's?

Mr. KERR. In the—do you know precisely? [Pause.]

1983–84 would be the timeframe.

Senator KERRY. So in 1983–84, you were gaining information regarding money laundering. Who did you disseminate that information to?

Mr. KERR. We'd have to go through specific reports. But, generally, our dissemination list, as I indicated, included the intelligence community, State Department, the FBI, Treasury, and because area of narcotics, obviously to those organizations involved in counternarcotics in this country. So it's tailored by our distribution. It's to some degree tailored by the nature of the reporting with terrorism going to one set of customers, narcotics information going to another, and banking information going to another.

Senator KERRY. Each and ever one of those activities would have involved breaking the law, is that correct?

Mr. KERR. I'm sorry? Each activity?

Senator KERRY. Well, each of those activities represented legal infractions, didn't they—money laundering, drug smuggling, terrorism?

Mr. KERR. My assumption is that some of those clearly would involve the breaking of U.S. law. Others would involve breaking internal, local laws of foreign countries. So there's probably two different kinds of laws being broken. We obviously have obligations within the intelligence community when U.S. laws are broken to pass that information to Justice and to our own law enforcement agencies. We don't have a similar obligation, obviously, when foreign laws are broken.

Senator KERRY. Agreed.

You made a judgment that in 1985, you said in your testimony, you issued a report that since 1981, BCCI owned First American. Is that accurate?

Mr. KERR. I think that's a correct statement. Yes.

Senator KERRY. And in 1985, when you made that judgment, to whom did you disseminate that information?

Mr. KERR. Principally to Commerce and to Treasury, although our understanding is the Comptroller of the Currency was informed by Treasury.

Senator KERRY. Was Justice informed?

Mr. KERR. I don't believe on that particular report; it was not informed.

Senator KERRY. Was DEA?

Mr. KERR. DEA? I doubt if it was because that was not, again, a narcotics issue. It was a banking issue, as we would see it.

I think in this case we would see as Treasury our principal customer in the United States intelligence community.

Senator KERRY. Was the Fed Reserve?

Mr. KERR. No.

Senator KERRY. The Fed was not informed?

Mr. KERR. No. My understanding was it was not.

Senator KERRY. Is there any reason that the Fed would not be informed that a bank was illegally owned in the United States?

Mr. KERR. Our assumption at this point in time I believe was—and it's hard going back that long to know exactly why a report. We have two issues, though: the first is the sensitivity of the sourcing of the information, and the second was that Treasury, again, was our, what we believed to be our principal customer on information of this sort. And our arrangements, by the way, with Treasury, as with State and with others, is that we have an intelligence component or an intelligence organization that is essentially counterpart organization in each of those organizations that we deal with.

Senator KERRY. Now, in retrospect, does this compartmentalizing and source issue confront us with a dilemma with respect to the other interests that the banking community might have had?

I mean, here you have Messrs. Clifford and Altman now hauled before committees and investigations. You have serious issues about the impact on other countries of what has happened, as testified to by the State Department. You have millions of small depositors who have been affected, not to mention a lot of businesses and so forth, as a consequence of BCCI being able to continue to do what it was doing.

Now, you had knowledge in 1985 that, since 1981, First American, by the judgment of the CIA, was "owned by BCCI."

Messrs. Clifford and Altman are saying they didn't know that. Where do you wind up with respect to a responsibility in terms of the banking laws of this country and the interests of the financial regulators being able to enforce that law and guarantee the soundness and safety, if you will, of the banking structure?

Mr. KERR. Well, it's easy in hindsight to make judgments about what the CIA should have done, given the way things have developed. Obviously, if we had that kind of hindsight, we might have done it differently. However, at that time, I think we saw Treasury as our principal customer. We understood Treasury informed the Office of the Comptroller of the Currency. To us, that was a very specific and direct responsibility.

Senator KERRY. So, in other words, you would say that you feel you informed the people who needed to be informed—

Mr. KERR. Yes.

Senator KERRY [continuing]. And they should have done something with it?

Mr. KERR. You'll have to ask them about their own view of that and the context they placed it in and their subsequent view of it.

But, even in hindsight, I think that was the appropriate customer for us. In hindsight, if we had added the Federal Reserve on, that probably would have been useful for this hearing and we would have been able to demonstrate dissemination to one more customer, and it might have been useful at that point in time. But, again, our perspective on that was that Treasury would be the logical place to receive the information.

Senator KERRY. I understand.

In retrospect, does that mean that there should be a broader dissemination list? Does it mean there should be a stricter set of guidelines as to how that kind of information is used from now on?

Mr. KERR. As I've indicated to you, we are looking at our own dissemination practices to see if we can make sure that we do disseminate our product to the right person. It's a continual drama, after all to know who's involved in what issue over a wide range of subjects. You can always improve that, and we are taking steps to improve it.

One of the difficulties I think it's important to recognize is that, as intelligence officers, while we have some reasonable insight into a lot of issues, we do not necessarily have full insight into necessarily what breaks the law in terms of banking, or the details of banking regulations. We really have to count on others to provide that detail.

We have, obviously, an overview of that and have some sense of what is legal and illegal. But when you get into the fine points of the acquisition of holding companies, you begin to go beyond our expertise, and also, as I said, we are not an investigative unit. We are essentially collecting intelligence for a very specific purpose. That purpose, quite simply, in this case was primarily, again, aimed at the illegal activities that BCCI was involved in—narcotics money laundering, terrorism, support to terrorism, and other activities such as that.

Senator KERRY. Well, how many reports would you say that you—

Mr. KERR. Several hundred.

Senator KERRY [continuing]. Disseminated through the community? Several hundred reports?

Mr. KERR. Yes. During this timeframe, we disseminated several hundred.

Senator KERRY. And these several hundred reports referred to?

Mr. KERR. Primarily in the narcotics area, in terrorism and in other reports of other kinds of activities, arms transfers and reports of—

Senator KERRY. When did you first start sending reports of terrorist activities?

Mr. KERR. Let me ask for specifics. [Pause.]

1986, I'm told, is the first report on terrorist activities.

Senator KERRY. When did you send reports with respect to narcotics activities?

Mr. KERR. That would go back into the earlier timeframe, probably back in—would that be back in 1983? [Pause.]

From 1984 on.

Senator KERRY. And when did you send reports with respect to, the first report, I take it, with respect to the ownership issue, was 1985?

Mr. KERR. That's right, early 1985.

Senator KERRY. So, in 1984-85, you began generating a fair amount of traffic on this issue, is that fair to say?

Mr. KERR. That's fair to say. We began at that point in time.

As I said earlier, we had an operational lead that led us to a focus, led us to focus our attention. As you might expect, we're a worldwide organization that has a lot of interests. And so, we tend, if we pick up a lead or a particular activity, then we focus some additional resources on it. But we are spread very thin when it comes to looking at all activities of everyone, everywhere.

Senator KERRY. Now, in your opening statement, you did mention that you provided information to the Fed. What kind of information was that?

Mr. KERR. Well, we have provided information and they are on our dissemination list for some products.

Senator KERRY. With respect to BCCI particularly.

Mr. KERR. I believe they were on dissemination lists for a subsequent report. [Pause.]

They got reporting, but not the initial report, though, in 1985.

Senator KERRY. Did they in any of the subsequent reports receive notice about the ownership that you reported in 1985?

Mr. KERR. I believe so. Yes.

Senator KERRY. You do believe so?

Mr. KERR. Let me ask Ted Price, who can be a little more specific.

Senator KERRY. OK.

Mr. KERR. He was saying we did not provide specific information to the Federal Reserve on the ownership issue.

Senator KERRY. Why did the CIA choose to use First American as a depository when it knew it was controlled by BCCI?

Mr. KERR. I assume the same reason a lot of other people used it, as a normal bank. It was used to transfer money to hold accounts, savings accounts, and other activities for us. But it is not a, it is

not an operation, used operationally. It was used as a repository for normal banking.

Senator KERRY. So the fact that you were generating reports on terrorist activities, the fact that you were generating reports on narcotrafficking activities, the fact that you had an illegal ownership situation didn't give you any alarm bells about using this—

Mr. KERR. But be specific about that, Senator, and that is our information was not on First American, what you just described. Our information about that activity, terrorism and counternarcotics, was on BCCI. We do not, number one, collect intelligence on domestic organizations, and we did not see—

Senator KERRY. You do not do that now, right?

Mr. KERR [continuing]. We did not see a link in terms of the activities of First American. In other words, we had no reason to suspect First American of any of the things you just described.

Senator KERRY. And so, the fact that First America was, according to your determination, owned by BCCI didn't matter? You considered it a separate entity?

Mr. KERR. I don't think that was a consideration in terms of our own banking activities domestically. No.

Senator KERRY. Now what about, I take it the CIA was aware that President Carter traveled to China, traveled to other countries in the presence of Mr. Abedi on a BCCI airplane.

Mr. KERR. I wouldn't assume that. Obviously, we'd know where President Carter was going just from reading the news. But I'm not sure we had identified particularly, you know, the mode of his travel or his association. Again, we don't collect intelligence on our former Presidents or U.S. citizens.

Senator KERRY. If a President of the United States—well, I take it you had an interest in the bank. I mean, you've said that.

Mr. KERR. Certainly.

Senator KERRY. Correct?

Mr. KERR. Yes.

Senator KERRY. And you were watching the bank very carefully, correct?

Mr. KERR. Again, I would say, though, it's very important to say we were watching it in terms of very specific objectives. We were not watching it as a financial institution. We were not watching the leadership in terms of its movements or its activities.

What we were watching, or what we were trying to do is collect information that we felt from our perspective, affected the national security interest—I go back to that. That was the focus.

Senator KERRY. Was it of national security interest to you that this bank might be trying to gain a foothold in the United States in order to further specific Third World or Pakistani interests?

Mr. KERR. It was sufficiently of interest to us that we provided that report to Treasury in the 1985 timeframe.

Senator KERRY. If that is of interest to you, wouldn't it be rather important to you to evaluate what Mr. Abedi, the head of that organization, might be doing with a former President of the United States?

Mr. KERR. I don't think so. I think that would be, I'm not sure those two are logically connected and I'm not sure we did.

I wouldn't, personally.

Senator KERRY. Would you not have been concerned about this bank that you knew was involved in narcoterrorism, knew was involved in terrorism itself, and that you knew had an illegal ownership, that it was openly appealing to the many interests in this country? Did that get relayed to anybody?

Was there any flag raised saying people ought to be notified here that this is not a good bank and they're getting sucked in?

Mr. KERR. No. Let me go back again.

I said we had several hundred reports that we provided on that general kind of activity. It seems to me that is our obligation, to provide the information to the appropriate organizations and to consistently continue to collect, and we did exactly that.

Senator KERRY. Did you notify those people who could have brought legal action against this bank for its activities?

Mr. KERR. We provide information to our oversight committees and to the Congress on a wide range of things, and to the principal executive organizations involved in law enforcement and intelligence, and in policy. I think that is our obligation, and we did precisely that.

Senator KERRY. Did several hundred reports go to law enforcement?

Mr. KERR. I don't know the precise number, but certainly a large number went. Of that, certainly several hundred were disseminated. I would say most of, many of them, depending, again, on the subject, would go to DEA, to the FBI, which is our principal conduit for intelligence, and to other intelligence organizations and then to policy organizations.

Senator KERRY. Could you, Mr. Kerr, provide the committee with a categorization of those reports, a breakdown of who the reports went to and what reports went to people over the period of that time?

Mr. KERR. I don't see why we cannot do that. It seems to me that's appropriate.

Senator KERRY. I think it would be helpful for us to understand that.

Mr. KERR. We'll provide a general characterization of the number, of roughly the numbers in closed testimony.

Senator KERRY. Is there any reason that the committee couldn't have the reports submitted to 207?

Mr. KERR. I'd prefer not to do that. But we can talk about how we might do that. Our problem with disseminating individual reports is we come very close to a sources and methods problem.

Senator KERRY. No, no, no. I'm not talking about disseminating. Could we put them in the intelligence safe over there, so that I, at least with code clearance, could review them?

Mr. KERR. I'd be glad to pursue that with you, sir, and work out some arrangement.

Senator KERRY. Is this going to be one of those long pursuits, or can we? [General laughter.]

Mr. KERR. Well, I would rather—I'd like to look carefully at what we are talking about and how we are going to do that, and talk to our oversight committee about it, and then let us pursue that, certainly.

Senator KERRY. Well, let us pursue that.

Mr. KERR. Let us pursue it.

Senator KERRY. We will pursue that.

Mr. KERR. My problem with that, if I might add, is that we would be glad to characterize them for you. We'll be glad to give you a briefing on them. We are a little hesitant when it comes to providing access to individual, raw reporting that describes sources and—

Senator KERRY. Well, you have provided it to each of these Departments.

Mr. KERR. Yes; individually, yes.

Senator KERRY. Correct?

Mr. KERR. Yes.

Senator KERRY. So if they can get it, I believe the U.S. Senate can get it. Is that fair?

Mr. KERR. Fair. A U.S. Senator can. We will talk further about it.

Senator KERRY. Thank you.

Now, what did you learn about BCCI's involvement in the facilitating of drug trafficking or drug money laundering?

Mr. KERR. I think it's difficult to go much further into this area except to repeat what I said earlier, and that is that we did learn that there were, in a number of countries, as my colleagues here said that BCCI branches were facilitating the introduction of large sums of money out of the narcotics business into the banking system.

Senator KERRY. In how many countries would you say that was taking place?

Mr. KERR. I would defer. Earlier, I heard the number that you gave. I don't have a precise number.

Mr. SMITH. We have a number of ten, which is drawn from investigations conducted by the investigative parts of the U.S. Government.

Senator KERRY. When did the CIA learn about BCCI's involvement in financing international arms trade?

Mr. KERR. A specific date I don't know. There are only a few reports of that. That is not an extensive body of information, and I don't have—let me ask—I don't have a precise date. But we certainly can provide that date to you, Senator.

[The information referred to follows:]

The CIA advised the subcommittee on November 22, 1991, that the date the CIA learned of BCCI's involvement in financing the international arms trade was 1987.

Senator KERRY. Do you recall how many instances or how significant the arms trafficking information might have been?

Mr. KERR. I think that, again, I can characterize it a little better in a closed session, but let me just take a stab at it and say that those are indirect, and what you have are activities on the part of a bank official to move weapons or to facilitate the movement of weapons between two countries. So it is a facilitating role.

Senator KERRY. But you did learn the bank was involved in that facilitating role?

Mr. KERR. Yes, we did.

Senator KERRY. Fine. I think that's the key.

What did you learn about BCCI's involvement in the handling of finances of terrorist organizations?

Mr. KERR. Again, I think the characterization we had earlier was that that is somewhat indirect. Probably, again, I'd prefer, because of our continuing interest in this area, to not detail it. But it is primarily, again, as front men for activities on the part of terrorists and helping them with their own front companies primarily in funding mechanisms for terrorism.

Senator KERRY. Did you learn and are you able to state how widespread that was within the bank structure itself?

Mr. KERR. I think it would be fair to say it was not—I mean, our knowledge of it was certainly not extensive. It's rather limited.

Senator KERRY. Fairly narrow—

Mr. KERR. Yes.

Senator KERRY [continuing]. To the top echelon, so to speak, to a narrow group of people?

Mr. KERR. Well, it's limited to a specific number of very few branches and to a very specific number of organizations. I think it would be unfair—

Senator KERRY. Fair enough.

Mr. KERR [continuing]. To characterize it as widespread and extensive.

Senator KERRY. That's what I'm trying to get at. That's fair.

What about knowledge of involvement in the movement of prohibited technologies to countries who weren't able to get those technologies on the open market?

Mr. KERR. My own view of that—and I'll have to ask the people behind me who know the details—I don't think there is specific evidence in the technology area. There's clearly evidence of material or weapons that were not, that would not have an appropriate end user, that would not be appropriate. But I don't know of a technology issue. [Pause.]

Senator KERRY. Did you want to add?

Mr. KERR. That's accurate.

Senator KERRY. Did you learn anything about BCCI's involvement in making bribes or payoffs, or any other forms of payments to foreign political leaders or heads of state or other high-ranking officials?

Mr. KERR. I don't think we have specific information on that, direct information.

Senator KERRY. So there were no reports with respect to any of those matters contained in these reports you made, these over 200 or so reports?

Mr. KERR. There is certainly a small number that talk about corruption or kind of sharp practices and ways to avoid local taxes—I mean, in that sense. But I think that would be the nature of the kind of reporting.

Is that fair? [Pause.]

Mr. KERR. That's, I think, a fair description of it. I think of the kind you are talking about, the kind of issue, I would say no.

Senator KERRY. Did the CIA learn anything about specific services provided to the Government of China by BCCI?

Mr. KERR. No.

Senator KERRY. Did you learn anything about the involvement of BCCI in the acquisition of proscribed technologies for Iraq?

Mr. KERR. Again, I think there is some evidence of arms——

Senator KERRY. Through BCCI?

Mr. KERR [continuing]. Through BCCI using a front. There is some, I know, specific. But I think an arms, this is not major high technology.

Senator KERRY. What did the CIA learn with respect to the relationship with Manuel Noriega and Panama?

Mr. KERR. On that issue, I think it would be inappropriate, given the nature of the trial; the Justice Department would prefer me not to talk about issues that involve Noriega.

I think that's probably appropriate guidance for me.

Senator KERRY. Can you perhaps at least confirm to the committee that you, through those, that in those reports to other agencies, there were reports of involvement?

Mr. KERR. What I can say is we did collect on involvement between BCCI, obviously, in Panama and the use of BCCI Panama by major narcotics traffickers. I don't think you can, I don't think you can, in fact, carry that statement beyond that, too specifically to Noriega.

Senator KERRY. I won't. We can take that up in private session. But I just want to establish, and I think it's important to do so on the record, that you gained information about that.

What about BCCI's activities in Colombia, including involvement with drug traffickers and government officials there?

Mr. KERR. Again, there is reporting on drug trafficking in Colombia, and the use, as I described earlier, of BCCI as an entry point for laundering money.

Senator KERRY. What about BCCI services provided to the Government of Pakistan?

Mr. KERR. I don't have specific information on that, on the Government of Pakistan. I don't think there is specific intelligence that would support that.

Senator KERRY. Can you share with the committee what the CIA learned about BCCI's secret purchase of First American in Washington?

Mr. KERR. I cannot do much more than I described to you earlier, and that is that in early 1985, we provided, we had information indicating that BCCI had acquired the holding company as early as 1981, and we provided that information in report form. But we have very little other to say about that. In fact, there is very little more to say about that. We got subsequent information on that issue later, but it did not change the fundamental report of 1985.

Senator KERRY. How would you describe the nature and extent of the agency's use of BCCI for its operations?

Mr. KERR. We used it as a normal bank to move money with accounts in that bank. As I said, we used it. Those accounts were associated with lawful and authorized activities that have been briefed to our oversight committees. So there's nothing that we were doing that they were not aware of.

We also used it as an access mechanism to collect against the bank itself. The amounts involved are relatively small, are quite small relative to the size of the bank and to our own activities.

Senator KERRY. How many accounts would you say there were, Mr. Kerr?

Mr. KERR. I'd rather not specify them, if I can. But there were not very many.

Senator KERRY. Did BCCI employees know of that?

Mr. KERR. No, they did not.

Senator KERRY. No employees anywhere in BCCI were aware of this?

Mr. KERR. No. Officials in the bank were not aware of the use that we were putting the accounts to.

Senator KERRY. Was that true initially of First American also?

Mr. KERR. Well, First American is quite a different matter, after all, a U.S. bank with domestic accounts where——

Senator KERRY. Oh, I understand. I'm just curious.

Mr. KERR. Certainly, they knew that there were ACI accounts. First American did. I mean, they are open, acknowledged accounts. Is that fair? [Pause.]

Some of them are.

Senator KERRY. Now you say that under no circumstances, you have said that First American was a target?

Mr. KERR. Yes.

Senator KERRY. And BCCI became a target when?

Mr. KERR. The mid-1980's, 1983, I think. Yes.

Senator KERRY. So, given Mr. Abedi's contacts within the intelligence community or given his perception that something was happening with respect to his bank—i.e., I think he felt that people were following him, questions were being asked of people, somehow there was an interest in the bank—it would not be inconsistent for him to say, which he is alleged to have said by a number of people, Mr. Bert Lance, Mr. Sakhia, and Mr. Rahman have all said Mr. Abedi felt the bank was on the CIA watch list. So, there's a consistency, I take it, between the timeframe of your saying BCCI was targeted and his perception that something was going on with the CIA, as he characterized it, the CIA watch list.

Mr. KERR. I wouldn't accept that at all. I wouldn't accept that connection as at all legitimate.

One, hopefully and presumably, he did not know his bank was being targeted by us. None of his employees did, and we were doing it in a way so that he wouldn't know. That was the whole object of it, nor would anybody in the BCCI. So I think the idea——

Senator KERRY. Well, could there have been a leak through this intelligence network somehow? He seemed pretty sure of it?

Mr. KERR. Well, you'll have to talk to him. It depends on whether you have confidence in what he says or what I'm saying right now. And what I say is that, in fact, it may have been, I mean, we can never, you never say "never," obviously; but, in fact, we know of no connection.

Senator KERRY. Do you know who a Mr. Bruce Rappaport is?

Mr. KERR. Only vaguely, yes. I know the name.

Senator KERRY. Has he had any dealings with the Agency?

Mr. KERR. I don't know the answer to that personally.

Senator KERRY. Do any of your answers behind you know the answer to that? [Pause.]

Mr. KERR. That's an issue we would prefer to talk about in closed session.

Senator KERRY. How about a Mr. Alfred Hartman?

Mr. KERR. Sir, I would rather not go down a list of people and determine whether or not we know them or not. I think that's inappropriate.

Senator KERRY. That's fair. I won't do that. That's fair.

Why don't we go through that part of it during the closed session.

I do have some more questions, but let me turn to my colleague. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. I have just a couple of questions here.

Mr. Kerr, have you identified who within your organization was charged with dissemination of this 1985 report and made the decision not to forward it to the Federal Reserve?

Mr. KERR. The individual involved? I think we know generally the rationale for why it was disseminated the way it was. Yes.

Senator BROWN. Do we know who made that decision to not identify the Federal Reserve?

Mr. KERR. I don't think I would put it that way. I think it was a decision to notify Treasury, and I'm not sure whether it was a conscious decision not to notify the Federal Reserve at all.

We went to what we thought was our principal customer in that area. So I'm not sure I would phrase the question the way you just did.

Senator BROWN. Let me try again.

We're all products of the training we have. My training was that somebody's supposed to take responsibility—

Mr. KERR. Someone did take responsibility.

Senator BROWN [continuing]. And when a decision is made that is a bad decision, you identify who made it.

Mr. KERR. I'm not sure it was a bad decision.

Senator BROWN. Well, you may feel that a failure to get information about a criminal activity to the Federal Reserve is not; I have a different view of it. That's an honest difference of opinion.

I guess my question is have you identified who made this decision?

Mr. KERR. I have not. I don't think we've identified the particular individual. But we know the group that it came out of. We know the individuals that were involved in it. But the answer is yes, we would be able to—but I'm, I don't know what the point of that question is.

Senator BROWN. Well, the point is very clear. If the decision is made that this kind of conduct of not identifying the appropriate agency is to change, that if your agency is aware of criminal misconduct with regard to banks, an effort to conceal the ownership of banks, that the conduct of the agency in the future should be different. The only way I think you make a change in that is to identify who is in charge of making this decision.

Mr. KERR. Well, in that regard, Senator, I can say, as I mentioned to Senator Kerry earlier, we have looked at our own decisionmaking process about how we disseminate reporting. We are looking at it with the benefit of hindsight. We tend to learn by our

own experiences. So we are going to examine that rather carefully, and you can rest assured that we will look with greater care on that at that time.

However, even in hindsight, I think the decision that was made, to give it to Treasury, that gave it to the Office of Comptroller of the Currency, was a legitimate decision based on our understanding of who the logical people were that had responsibility for it. So we are looking at our own practices, and we will look at our own process. That's one thing our Inspector General, in his review, looking at it, suggested that that's an area where we need to look at our own consistency and our own dissemination of reports, and we are doing that.

Senator BROWN. I guess the question then is—and perhaps you've answered it—is that you have not identified who was in charge of this area and who made this decision, and you have not disciplined him.

Mr. KERR. I am not going to discipline anybody for that mistake. That was an honest mistake, and I wouldn't think of doing that.

Errors of judgment, I might add—

Senator KERRY. Is there a policy change at CIA now as a consequence of this?

Mr. KERR. I wouldn't say a policy change. It is a look. What we are doing is looking, again, at our distribution, how we distribute reports. I said we have worldwide reports on a variety of different issues.

Senator KERRY. Apart from just distributing, I mean, I suppose you could make the decision to just distribute and include six more people on the distribution list. But it doesn't really guarantee that it's going to come to the attention of somebody in that flagged way that says: folks, somebody ought to do something here.

Mr. KERR. That's why we also call specific attention of people to the reports. In fact, we did on this report in 1985, in Treasury. We made a particular point of calling it to their attention. We got specific tasking back on it.

Senator KERRY. Whose attention was it called to in 1985?

Mr. KERR. I'm not sure of the individual at this point in time. But it was discussed with the individual in the intelligence area of Treasury. We got some specific requirements back on it.

So we felt we had done, essentially done, our particular job in this.

Senator KERRY. But did it go to the Secretary level? Did it ever get to sort of a decision—

Mr. KERR. I don't know the answer to that, whether it was called to the attention of the Secretary.

Senator KERRY. My question to you is do you think it should be, now, retrospectively? Do you think that there ought to be a policy change that says: hey, folks, if we come across illegal activity in the course of our intelligence gathering that reflects on U.S. Government law that ought to be enforced, we now have an obligation to give it to so-and- so? Is that there?

Mr. KERR. I don't think, quite simply, that's a practical—given the volume and the nature of the intelligence business, and any general rule about that. It requires judgment, it requires a variety of different things in the process.

I think any general rule that says you give everything in a particular category to a certain group probably would be unwise, given the nature, and the complexity, and the volume of information of the category you're talking about.

So I think you have to have within organizations people who are responsible for making decisions. In this case, we did. Even in hindsight I would say we gave it to the right people. We called it to their attention. We followed up with information. So I feel relatively comfortable about that.

Would I have now preferred to have given it to others? The answer is yes. I mean, hindsight is a marvelous thing, it gives clarity to your understanding.

Senator BROWN. Well, pardon me. But this was criminal behavior.

Mr. KERR. And it was given to the——

Senator BROWN. It doesn't take a genius to figure out when criminal behavior is going on, you let the applicable agency know that something is——

Mr. KERR. And we believe we did that.

Senator BROWN. Well, can you tell us who at Treasury this was sent to?

Mr. KERR. It was sent to the chief of intelligence at Treasury and called to their attention.

Senator KERRY. But intelligence, I mean, this gets back to the training issue that Senator Brown brought up. They're going to see this in intelligence terms. They're going to see this in the context of just sort of a day-to-day missive, are they not?

Mr. KERR. I don't think that's true.

I think a policy organization that has intelligence, just like State's INR, sees their intelligence in policy terms.

Senator KERRY. And evaluates it?

Mr. KERR. That's their job, and that's the nature of the way they look at it.

I think that, again, is quite a legitimate process.

Senator BROWN. We are going to get a copy of the report. I know you're trying to work that out. So I think it's helpful.

But can you give us any idea? Was this flagged in a way that it was noted for attention?

Mr. KERR. It was flagged and noted. Yes.

Senator BROWN. Thank you.

Senator KERRY. Is there a policy—this is a little bit afield, but it's not afield. It's something that has interested this committee over a number of years. In fact, the original investigation of this committee grew out of a sense of this conflict.

We have had witnesses in the Noriega trial who have already testified publicly that they flew weapons one place and flew drugs back, the other. And it was because they were acting sort of under cover of "intelligence"—not official, but, you know, under that cover—that they were able to do that.

There has been a legion of allegations over the years of this confusion between intelligence goals and the need for secrecy, and the need to maintain sources, and the need sometimes to deal with really nefarious types in order to get the information you need to get, and then what they're doing, the activity they're engaged in

and the impact that might have on us of your keeping those sources secret.

Has there been a review of that kind of issue? I mean, I'm really talking about narcotics trafficking. When you have money launderers and narcotics dealers who are also intelligence sources of one kind or another, maybe a third party source to somebody in another country whom you've sourced or something, what happens? Is there a tension there?

Mr. KERR. Certainly there is a tension. It's an issue of constant concern. It's an issue where we have some very specific instructions and direction in terms of our ability to deal directly with narcotics traffickers. There's a very complicated process for that, and a vetting process.

It is, as you say, a very difficult process. It's a little, however, like saying that the police shouldn't deal with criminals. To collect intelligence, you need to deal with people who are the targets.

Senator KERRY. Absolutely.

Mr. KERR. And so, it's a very complex issue. But we have oversight mechanisms that we report to on this issue. We have some very specific guidance as to how we deal and work with people who are involved in narcotics, the trade. And so, it is a very explicit set of guidelines.

If anything, it is prohibitive to the point where it makes it difficult to deal with the narcotics trafficking business. But it is certainly complicated. There certainly is a review process, and it is an ongoing review. I mean, it just doesn't happen once a year or once a month. It happens with every specific activity.

Senator KERRY. Did you receive any information at the Agency regarding BCCI or any other entity or agent of the U.S. handling Public Law 480 transport commodity credits or other things for the Department of Agriculture programs? Did you get any information on that?

I see heads shaking in the back.

Mr. KERR. That's not an issue we would be involved in except in the most peripheral way. I can't think of any specific example.

Senator KERRY. With respect to the BCCI involvement with the financial arrangement of Mr. Ghorbanifar and Mr. Khashoggi in connection with Iran-Contra, there are documents showing \$10 million through two Canadians for TOW missiles that were going to go to the Ayatollah, with \$1 million in additional funds that were going to be generated and split between Khashoggi and BCCI. This is documented as well as testified to. It was aborted when our officials grew wary of Ghorbanifar.

Did the CIA have any information with respect to that transaction or any role in it?

Mr. KERR. That's an issue I really don't know enough about to answer specifically about it. When you say "any role or information," that's one I would have to, it's kind of off this main, principal subject, and I'm just not prepared to answer it, I'm afraid.

Senator KERRY. Well, the reason I think it's part of the subject is it's a BCCI transaction involving secret accounts and involving figures who have already shown up with significant ties about whom our community, I take it, was pretty aware.

Mr. KERR. To my knowledge—and I think that's—

Senator KERRY. If you can't answer it now, Mr. Kerr, I understand.

Mr. KERR. Yes.

Senator KERRY. But what I would like to do is get an answer to that, if we can.

Mr. KERR. Well, we can do that. I was going to see if I could go back to my own notes and see if I could provide a specific on that.

Senator KERRY. Well, are you aware of Mr. Khashoggi sending a New York oil man by the name of Roy Furmark to the CIA?

Mr. KERR. I know that based on testimony and a whole variety of other things. Yes.

Senator KERRY. So you know that Mr. Khashoggi sent a messenger to Langley to warn Mr. Casey that the Canadians were feeling swindled and were going to go public? That took place?

Mr. KERR. I know that. But I'm not sure what the relevance of that is to this issue of BCCI.

Senator KERRY. Well, because this was all part of the same transaction. This was Mr. Khashoggi with the \$10 million that was aborted, and BCCI was a part of that.

So the question I'm asking is whether the Agency had knowledge of or involvement in that particular transaction.

Mr. KERR. Let me go back to my testimony and I will certainly followup and make sure, and that is that CIA was not involved or did not have any knowledge of the use of BCCI for the sale of arms to Iran or the diversion of funds for the Nicaraguan Contras.

Senator KERRY. Or could it be that it had knowledge of this particular transaction, which had nothing to do with those two transactions you just cited?

Mr. KERR. Certainly in hindsight, and there were people who have testified that they had knowledge of it, like Charlie Allen, I believe.

Senator KERRY. Well, if we could, followup on that.

Mr. KERR. If you could give us a specific question, we would be glad to followup.

[The information referred to follows:]

This issue was addressed in closed testimony on October 31, 1991.

Senator KERRY. It is accurate, is it not, that the TOW missiles that were to go to Mr. Ghorbanifar to Iraq were going to come from the U.S. Government? Correct?

Mr. KERR. That's my understanding, again, though I'm not sure how relevant that is to this issue.

Senator KERRY. Well, because, the reason it is relevant—I don't want to give you a sense I'm going off into some tangent here, I'm not—it's a BCCI facilitated transaction, or so it is alleged. I'm trying to understand from our side of the fence what we knew about it. We have documents showing the transaction in its nascent form. The question is to what degree we may have been leveraging that transaction, pushing it, part of it, or what.

Mr. KERR. Again, I go back. We have no evidence and no knowledge of involvement in the use of BCCI for the sale of arms to Iran or in the Iran-Contra issue. So that's about all I can say. Having said that, I can't do much more.

Senator KERRY. Do you have any knowledge or did the Agency have any knowledge of a BR&W Industries, Ltd., and its use financed by BCCI for the shipment of TOW missiles?

None that you think of?

Mr. KERR. No, none that I know of.

Senator KERRY. OK.

Let me ask you this.

While the Agency may not have approved of it formally, and while it may not have been transacted through Agency procedures, do you or does the Agency now have any information that Mr. Casey somehow, in that sort of separate series of transactions that he did, used BCCI in connection with the financial transactions related to the Iran-Contra sale?

Mr. KERR. No, I have no knowledge, although I would question your own assumption of separate transactions because I don't think there is evidence for that, either. But no. The answer is no.

Senator KERRY. Well, on the contrary, there is evidence, significant evidence, of Oliver North having been dealing with Mr. Casey and talking to him and of information that he was aware of outside of the normal loop with respect to the entire thing that has consumed Mr. North's life for the last few years.

Mr. KERR. I wouldn't want to get into a debate or an argument on that, but I think that evidence is primarily hearsay and not evidence.

Senator KERRY. Well, we're just asking the questions.

Kamal Adham could you define to us what you understood Kamal Adham's role to be in BCCI?

Mr. KERR. I'm afraid I have very little information on that other than what's obvious to you and what has been in the public record.

Senator KERRY. So you have no other information through the Agency?

Mr. KERR. It's not an intelligence, subject of intelligence interest, particularly. We can if you, that's a subject that we might explore if you want to pursue that in closed session.

Senator KERRY. Yes, I would appreciate that, if we could.

The other questions I have here really are closed session questions.

With respect to State Department, if I could just ask you gentlemen, do you see any of our interests, policy interests, now impacted as a consequence of the fallout in any of the countries that you've talked about at this point?

Is there a sense that this has that kind of impact, or is it more of a moving event that will not really have an impact? That is, are the central banking funds of such order that are missing in a particular country that we have to be concerned about the fall of a government or about recriminations that somehow would affect outlook, or anything? Is there any sense of that at this point?

Mr. KRECZKO. Senator, I would hesitate to be too categorical because of the ongoing investigations in, primarily in Latin America, Argentina and Peru, for example. But I think generally, as a general matter, your statement is correct, but depending upon the outcome of investigations in those types of countries.

Senator KERRY. Would it be your perception that attitudes have changed in any of these countries or with any of the nations we're

currently negotiating with on financial transactions with respect to bank secrecy and money laundering?

Mr. SMITH. Mr. Chairman, I think that attitudes have changed greatly over a period of time on that subject, as evidenced by the responses of countries which have participated in the Financial Action Task Force, the widespread progress on implementing the recommendations of that task force, the attendance by other countries in the regional meetings which the task force members have promoted, the efforts by European countries to eliminate, pierce the veil of bank secrecy, and to take various other steps which would greatly strengthen the system to prevent this type of thing.

Senator KERRY. Why have we not been more successful in doing that in Panama, for instance? Panama has more money laundering today than it did before we had an invasion.

Mr. SMITH. I would say in the case of Panama that we have recently had one action, which I believe has just occurred this week, which is we have sent to the Senate the Mutual Legal Assistance Treaty which we have negotiated with Panama, which will greatly facilitate our ability to deal with the Panamanian Government on issues deriving from money laundering investigations.

Senator KERRY. Could you share with us, Mr. Pope, what terrorist organizations made use of BCCI? Was it only the Abu Nidal?

Mr. POPE. Senator, I'm afraid in this session I can't be more specific on precisely the identity of those organizations because of concerns that Mr. Kerr has alluded to.

Senator KERRY. OK.

Can you tell us what the nature of BCCI's activity was? Did they actually provide financing in addition to providing banking services?

Mr. POPE. No, sir. To the best of our knowledge, it did not include financial backing.

Senator KERRY. So, to the best of your knowledge, it was really just banking service?

Mr. POPE. That's correct, sir.

Senator KERRY. Was there something that made BCCI particularly attractive to these organizations?

Mr. POPE. Yes, I think there was something. It was a bank with a Middle Eastern reputation. Of course, these terrorist organizations were operating in the Middle East. It may have been a bank that had a reputation for providing secrecy and not asking too many questions.

Senator KERRY. Were they involved in financing any state sponsored terrorism, that you know of?

Mr. POPE. Not to the best of my knowledge, sir.

Senator KERRY. Have you been able to evaluate how extensive the involvement of BCCI was with the central banks of countries, or are you still trying to do that?

Mr. KRECZKO. Senator, we do not generally have reports on involvement of central banks. What we can say is that we have reports that in Pakistan, China, Peru, Jamaica, Cameroon, Nigeria, Zimbabwe, and Zambia, central banks or other government agencies may have made reserve deposits with BCCI. But those are reports that we can't necessarily confirm.

Senator KERRY. Now we've had evidence before this committee of BCCI assisting in the movement of nuclear technology and nuclear grade materials.

Have you had, either the CIA or State Department, similar information?

Mr. KRECZKO. I think, Senator, that some of that would have to be handled in closed session. But there is a case that was prosecuted successfully against a Pakistani national by the name of Parvez for an attempt to procure in the United States nuclear related materials, and BCCI was involved in the financing of that. That's a matter of public record.

I don't believe that there is an indication that BCCI was involved in illegal activity, necessarily. But BCCI was involved in the financing.

Senator KERRY. Mr. Kerr?

Mr. KERR. I think that's, I know nothing beyond what was described.

Senator KERRY. Let's go on, then.

Mr. KERR. I know about the case. Quite simply, I did not know that BCCI was involved in that particular case. But we may have had information on it.

Senator KERRY. Did you have any information, either of your departments, with respect to a sale of jets to Iraq, to Saddam Hussein, through Argentina?

Mr. KERR. No.

Mr. KRECZKO. No.

Senator KERRY. Did you have any information, either of you, with respect to BCCI's involvement with Rajiv Gandhi and his government?

Mr. KRECZKO. No.

Senator KERRY. Did you have any information with respect to BCCI's involvement with government figures in Sri Lanka?

Mr. KRECZKO. No.

Senator KERRY. With respect to Latin America, did you have any information with respect to BCCI's involvement with Alan Garcia in Peru?

Mr. KRECZKO. Senator, we have someone from the Latin America bureau. If I could, I'd ask her to join the table.

Senator KERRY. If you could just identify yourself. Everybody is willing to give up their microphone, I see.

Ms. JACOBSON. I'm Roberta Jacobson. I'm the Deputy Director of the Policy Planning and Coordination Office of the Bureau of Inter-American Affairs.

Our information on Alan Garcia in Peru has come primarily through recent news reports over the past year or so out of Peru. He's been alleged—

Senator KERRY. I realize what he's been alleged to, in the newspapers, but did you have any information from your sources or yourselves with respect to that?

Ms. JACOBSON. We had no information at the time or since then, through our own information.

Senator KERRY. Mr. Kerr.

Mr. KERR. Senator, I think going, again, going through a list is somewhat of a problem for us—

Senator KERRY. You want to do it in private session.

Mr. KERR [continuing]. Either negatively or positively.

Senator KERRY. Well, I'm not sure. I mean, if you say that we had some information, we don't have to go into what it was. But I think it would be helpful to have a sense of it.

I think it's helpful to know that you didn't have a lot of the information. It indicates something. I mean, it either indicates that—well, I won't get into what it might indicate. [General laughter.]

Leave that alone.

Did you have any information regarding the sale of arms to Iraq at any time, anybody?

Mr. KRECZKO. No.

Senator KERRY. Senator Brown, do you have anything further? [Pause.]

I am just advised by staff that apparently the Fed has already said publicly that you folks provided some information on Kamal Adham. I just wanted to confirm that since they've said it publicly, or not. We won't go into the details of what you may have provided.

But do you recall providing the Fed information on Kamal Adham?

Mr. KERR. I don't know the answer to that.

Senator KERRY. This was before the Fed approved the, this was way back when Financial General Bankshares was in the takeover process, and in the original effort to seek permission for the investors to come in since Kamal Adham was one of the original investors, there was testimony that people checked with intelligence sources, and there was some evidence to the effect that, according to the Fed, that they received information from you, from the Agency—not from you personally—with respect to that.

Does anybody have a recollection of that?

Mr. KERR. We responded, I understand, to a request from them for information, which we subsequently passed. I can't—

Senator KERRY. Is there a record of what might have been passed on?

Mr. KERR. I would assume there would be. Yes.

Senator KERRY. Would you be willing to check that, please—

Mr. KERR. Certainly.

Senator KERRY [continuing]. And see if we could ascertain that? I think it would simply be helpful in completing the record. It's no great issue, but it would help complete the loop here.

[The information referred to follows:]

CENTRAL INTELLIGENCE AGENCY,
WASHINGTON, DC,
November, 22, 1991.

The HON. JOHN F. KERRY,
Chairman, Subcommittee on Terrorism, Narcotics and International Operations,
U.S. Senate, Washington, DC. 20510

DEAR Mr. CHAIRMAN: Forwarded herewith is the transcript of DDCI Richard Kerr's open testimony presented to your Subcommittee on Terrorism, Narcotics and International Operations on October 25, 1991. Minor textual corrections are noted as requested. This letter also addresses the followup issues from that hearing noting that most of those issues were subsequently addressed in Mr. Kerr's closed testimony to your committee on October 31, 1991. Finally, we have noted several points of correction/elaboration in the open testimony which were addressed in Mr. Kerr's formal statement to the closed hearing or in his commentary there.

Concerning the followup issues:

a. On page 48 it was agreed that a general characterization of the reporting and numbers of reports would be made available. That material was provided in the closed testimony.

b. On page 51 a specific date was requested relative to learning of BCCI's involvement in financing international arms trade. That date is 1987.

c. On page 59 data on Bruce Rappaport's relationship was requested. That was addressed in closed testimony.

d. On page 70 the question of a BCCI connection with funds for the Contras was addressed. This issue was addressed in closed testimony.

There are four issues from the text—items a through d—requiring either correction or clarification that were addressed in Mr. Kerr's statement at the closed testimony. Item e was addressed in the Q and A in the closed testimony.

a. Pgs. 45-46. It should be noted that in 1988 a member of President Carter's advance team was briefed prior to a trip abroad by the former President about the involvement of BCCI in illegal activities.

b. On page 54 lines 1-4 it should be noted that in contrast to the negative response, the Agency did have a small number of reports on BCCI involvement in third world corruption.

c. On page 54 lines 19-21 the Agency did have some reporting on BCCI being used by third world regimes to acquire weapons and transfer technology.

d. Elaborating on the response on page 79 lines 18-25 and page 80 lines 1-16 it should be noted that the Agency responded to requests from both Treasury and the Federal Reserve in the 1980-81 time period for biographic trace information on the Arab shareholders in Financial General Bankshares. The information provided was basic biographic information, which included no derogatory information except to note that one individual had been named in a U.S. court as one of those making allegedly illegal purchases of Financial General Bankshares.

e. On page 13 lines 16-19 it should be noted that in early 1985 the Agency advised the Department of the Treasury that BCCI had gained control of a Washington D.C. based holding company. Our records indicate that three months later Treasury had identified the bank as Financial General Bankshares.

STANLEY M. MOSKOWITZ,
Director of Congressional Affairs.

Senator KERRY. Senator Brown.

Senator BROWN. Mr. Kerr, I know you dealt with this in opening statements and by reference. But I thought it might be worthwhile to go back through with what specifics we had with regard to Mr. Lance's allegations about the Central Intelligence Agency.

Specifically, what he had referred to before the committee was that Mr. Abedi and BCCI had, in effect, turned into the Bank of the CIA. We don't have a lot of specifics relating to this charge, but what we do have are three things: one, the allegation by Mr. Lance that Mr. Abedi was on the CIA watch list with regard to this specific. Do you know if that is the case?

Mr. KERR. No, that's not true.

Senator BROWN. It's not the case?

Mr. KERR. It's not the case.

Senator BROWN. He also had indicated that Mr. Abedi had been placed in CIA holding rooms during some of his visits and harassed by the CIA. One can only hope that's not sexual harassment. But do you know if that's true?

Mr. KERR. Whatever it was, it's not true.

Senator BROWN. He also alleged that, in 1984, the treatment—

Senator KERRY. Is that one of those CIA blanket denials, "whatever it was, it wasn't true?" [General laughter.]

Senator BROWN. He also alleged that in 1984, the treatment changed with the implication that that was when they became, developed a working operation with the CIA.

Any comment on that charge?

Mr. KERR. Well, seeing that the first wasn't true, the second is not true. It didn't change because there was none in the first place.

Senator BROWN. There was no change.

Well, I appreciate your going through those specifics with me—

Mr. KERR. I understand.

Senator BROWN [continuing]. Because, obviously, I think it's helpful to have a clear denial or a clear setting of the record straight on those, what specifics we do have.

Thank you.

Senator KERRY. I might say that we need to go into the closed session in order to go through some of those personalities and other aspects of it that I hope can give us a full sense of that.

One thing that has attracted a lot of attention in this is this whole, so-called "black network," which we have not heard a significant amount of evidence on. We've read about it, but always through indirect sources, et cetera.

Individual bank officers have testified to incidents of threats and to efforts to intimidate them or keep them quiet, or so forth.

My question to you is that was a pretty extensive network that was outlined and some fairly dark activities. To what degree does your intelligence data correspond or document that kind of activity with respect to the BCCI bank?

Mr. KERR. We probably can expand on that in closed session. But it seems to me that the most obvious answer and the accurate answer in this session would be that the things that we have described to you earlier as illegal activities obviously constituted a fairly sizable activity on the part of the bank.

There also, presumably, you know, was a legitimate side of banking operations—loans, et cetera. So I think part of it is seeing this kind of two-sided organization as seen by the nature of the intelligence that we collected over that extensive period of time to show that there was, in fact, a group, a side of that which practiced in, if not illegal—well, it certainly was illegal—but also kind of shady activities. My assumption is that there is also a more formal legal side of it. Whether it was, quite simply, a neat line between the two, I personally don't know. My instincts would tell me that's probably not the case.

We can expand on that, if you wish, in closed session.

Senator KERRY. I would appreciate it.

Mr. KERR. But that's, I think, a fair statement.

Senator KERRY. I would appreciate it.

Now, in sort of larger fashion, as we wrap up the open session part of this, there was a lot of information floating around, obviously, some of it really going back. And I understand 20-20 hindsight is what it is. But you go back to the early struggle. You did have some regulators who were saying: don't do this. One, in particular, in Virginia, had to literally be overruled because he was so concerned about the lack of financial data, about the obvious joint ties.

Now that's more financial than it is your business [indicating] or your business [indicating]. But early indications in England and elsewhere were that there were problems in 1978, in 1977, in 1979, and so forth. You began to get wind of those in the 1980's, and, by the mid-1980's, there was evidence of narcoterrorism, narcotrafficking, money laundering, involvement with terrorist groups, arms trafficking, and, obviously, of an illegal ownership.

From 1985 on, until there was the one effort in Miami, in Tampa, excuse me, that this sort of just went on. It grew, got larger, a new bank was bought in America, National Bank of Georgia, and their branching and agencies grew in this country.

What happened?

I mean, is it fair to say something went wrong, that something that should have happened didn't?

Mr. KERR. Well, you're in a better position, quite simply, to answer that question than I am.

Senator KERRY. Well, what do you think? I mean, you're a policy person.

Mr. KERR. No, I'm not.

Senator KERRY. I mean, you're running an agency.

Mr. KERR. I am an intelligence officer and I collect information. My assessment, or my companion to you—

Senator KERRY. That's right. We're still arguing whether it's a policy person or not.

Mr. KERR [continuing]. Would be that what I do is collect information systematically based on what I either know to be the requirements or what I interpret to be, or what I see should be the requirements, which is exactly what we did. We saw an—

Senator KERRY. But are you happy with the outcome? I mean, as a person who's done that, do you think your work met the response that it should have met with?

Mr. KERR. I think, I am happy with our collection activity and happy with our output. I'm often not happy with what I see, how I see our information used. But that's bigger than my—

Senator KERRY. Well, was it used, used at all?

Mr. KERR. You're in a better position, quite honestly, to know how well it was used. We certainly had follow-up questions to it. People paid attention to it. We issued a lot of information. We provided a lot of information.

Senator KERRY. Well, what really should have happened never happened. The bank should have been shut down. It didn't happen until the Bank of England shut it down in 1991, correct?

Mr. KERR. I'm afraid you'd have to talk to the regulators and those who deal with the other side of this business.

Senator KERRY. State Department, do you have a comment?

Mr. KRECKO. From our standpoint, Senator, the bulk of the information that we were receiving fell into the two areas that we mentioned, which is terrorism and money laundering, where we believe we took appropriate steps in response.

We were not receiving information about foreign reserves being deposited in the bank or about the bank's insolvency, or even, with a few exceptions, about corruption within the bank.

Senator KERRY. Well, obviously, you know, 20-20 is 20-20. I don't want to be unfair about it. But, on the other hand, an awful lot of

information was being given to people, including by this committee, incidentally, as early as 1988. It just seems like nobody wanted to respond, nobody, for whatever reason. And I'm not assigning any conspiracy to it, and it obviously didn't involve you, any of you at this table, because that's not your job.

But the information you were generating was not being responded to. It's hard to understand how so many different pieces of what is now this enormous banking scandal that was sitting in front of everybody didn't come.

Now, maybe there needs to be a real overhaul of the evaluative, final product process, as you have suggested, you have undertaken to a degree within your agency—but some means of pulling this stuff together or something. I don't know. Maybe the Financial Crimes Center will have that capacity through its computer and so forth. I don't know.

But it's obviously very disturbing to people and I'm sure extraordinarily disturbing to those people who consider themselves the victims of this, quite publicly, that there were so many levels of knowledge. And yet, it never reached a point of having something happen.

Mr. SMITH. Mr. Chairman, if I could add on that, I was looking back at the timing. I don't know the exact date of when the investigation began. But I do note that in the report we published in 1989, we referred to the Customs Investigation as a 30-month investigation. That report, our report was published in early 1989. So that would take the investigation back to having started in 1986.

Now, that is not prompt action—if the reports originated in the early 1980's. But it does indicate that an investigation was underway as early as 1986, and it was a very lengthy, detailed investigation which resulted in indictments 30 months later.

Senator KERRY. Let me just say to you that that will open a whole series of larger questions, which are not your area of concern, specifically. But since this committee has had an enormous amount to do with that investigation and with what has happened since, I'll just share with you, since you raise it, that the Operation C-Chase did not grow out of any communication that came from the CIA or from a department. There was no initiation of that investigation from Washington, DC, or from any United States agency. It happened because some people happened to stumble on it who were good Customs agents down in Tampa. They started it on their own. They have complained publicly. In fact, one of them resigned because he was so disgruntled with the lack of resources and lack of commitment to follow through on it.

So the simple reality is that that happened, indeed, and people are trying to claim credit for it as evidence of some terrific effort. But the tapes that were turned over by this committee, the communications that were turned over by this committee, the articles that were written in major newspapers about ownership of the bank that was illegal were met with stony silence and lack of action.

Now it is not your fault [indicating], not your fault [indicating]. It has no bearing on this thing. But since you raised the point and try to assert that that was an outgrowth of it, I have to counter you and say it had nothing to do with it. It just didn't.

You know, that's why it's hard to understand with all of this.

Now, I promised you at the outset that this is not a session to berate, and it's not. We didn't come here to rehash all of that.

I think you've well served us, Mr. Kerr, today in giving us a lot of the sense of this and in clearing up a lot of things. I think it's been very helpful to have you on record doing that.

I appreciate it enormously.

Do you have anything to add to anything?

Do you have any questions that you want to ask?

Senator BROWN. Just that I would like to ask the State Department—I guess Mr. Pope might be the one to respond—to give us some idea of what you all did or didn't do in terms of advising the other countries that have been, in effect, victimized here, of the intelligence we have on BCCI? Did the State Department see it as their responsibility to advise other governments of BCCI's activities?

Mr. POPE. Senator, I can speak to the issue from a counterterrorism point of view.

As I've tried to outline, we did work with other governments when we received information about the front companies that were associated with the Abu Nidal organization, and in that connection there was a great deal of cooperation with foreign governments that was designed to counter, to dismantle, that network, as that information came to us.

Senator BROWN. It may be that a significant portion of what we're concerned about here probably doesn't fall into the terrorism area. So perhaps it would be for someone else in the Department to respond.

Mr. KRECZKO. As I said, Senator, the bulk of the information that we were receiving came in either in the money laundering or the terrorism areas. And in those specific areas, there was cooperation with foreign governments.

But we did not go out and take an initiative at any point to inform states generally that there was a BCCI problem that I am aware of because we were not receiving information that suggested that the bank was insolvent, that the bank was about to be closed, that there was going to be an impact on local depositors.

Mr. POPE. If I could just add, Senator, our concern was with the terrorists and their activity, not with the bank. The bank was very much a byproduct of our concerns.

Senator BROWN. Can you all give me a feel for what the State Department's policy is in terms of sharing information on a commercial activity that appears to be based on fraud? It may not be in your area of expertise or knowledge. But I think part of the question here is simply a commercial venture that appeared to be fraudulent.

Is that the sort of thing we take the initiative to share with other countries?

Mr. KRECZKO. We do have mutual legal assistance treaties with countries that are primarily executed through the Justice Department, and there would be law enforcement cooperation through that channel. But I think it would be case specific, and in this particular case, we were not getting the information that would have led us to do that, other than in the two specific areas mentioned.

Senator BROWN. Thank you.

Thank you, Mr. Chairman.

Senator KERRY. Mr. Kerr, if I could ask you, could we do the closed session next week, do you think? Would you be able to be available?

Mr. KERR. I'll certainly try to be available next week. I will be here. I'm not sure of a schedule, but we can work something out.

Senator KERRY. If we can find a time that works, I don't think it will be that long a session. But I would like to do that.

Mr. KERR. That would be fine.

Senator KERRY. OK. That's great.

Now normally, folks, we swear people in at the beginning of a hearing. But because it's been a long week, the chairman is excused for doing it at the end of the hearing today. I do want to ask you if you would just rise so I can swear you for your testimony today.

Mr. KERR. Does this commit me forever, now, to this?

Senator KERRY. Do you swear to tell the truth—do you swear that you have told the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. KERR. I do.

Mr. KRECZKO. I do.

Mr. SMITH. I do.

Mr. POPE. I do.

Senator KERRY. Thank you very much. At this time, I would insert some background information pertinent to today's hearing into the record.

[The information referred to follows:]

Central Intelligence Agency



Washington, D.C. 20505

23 July 1991
 OCA 1535-91/1

The Honorable John F. Kerry
 Chairman
 Subcommittee on Terrorism, Narcotics and
 International Operations
 Committee on Foreign Relations
 United States Senate
 Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your letter of May 14, 1991 regarding the Bank of Credit and Commerce International (BCCI). I apologize for the length of time it has taken to respond.

Your letter requested a copy of a memorandum prepared by CIA that was made available to former Customs Commissioner William Von Raab, and information on CIA's relationship with BCCI. We have now located a 1986 working paper prepared on BCCI, and an update of that paper prepared in 1989. While we cannot be certain, we believe it is likely that the 1986 paper is the document reviewed by Mr. Von Raab. The updated version of this paper was clearly disseminated to the Customs Service. Because of the extremely sensitive nature of this information, we will make it available to you through the Senate Select Committee on Intelligence. I have provided the two documents to Mr. George Tenet, Staff Director of the Intelligence Committee, and I have asked him to make them available to you or appropriately cleared members of your staff for review in the Intelligence Committee's secure space.

Our Inspector General is currently reviewing the matter of any CIA use of BCCI, and will provide a report of his findings to the House and Senate Intelligence Committees.

If we can be of any further assistance in this matter, do not hesitate to contact us.

Sincerely,

William H. Webster
 Director of Central Intelligence

12TH STORY of Level 1 printed in FULL format.

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November 17, 1977, Thursday. Final Edition

SECTION: First Section; A1

LENGTH: 380 words

HEADLINE: Helms as Consultant;
Helms to Operate An International Consulting Firm;
A Go-Between for Iranian Businesses

BYLINE: By Bill Richards, Washington Post Staff Writer

BODY:

Former Ambassador to Iran Richard M. Helms has opened an international consulting firm here which he said yesterday will concentrate on developing business interests in the United States for Iranian companies.

Helms, 64, said, "I might be a go-between or represent Iranian interests who would want to do something in this country." He said he named his new consulting business the Safeer Company because Safeer means "ambassador" in the Persian language of Farsi.

Helms was fined \$2,000 and given a two-year suspended sentence Nov. 4 after he pleaded no contest in federal court here to two counts of failing to testify fully and accurately before a Senate committee considering his nomination to be ambassador to Iran in 1973.

The charges against Helms were related to his testimony on two occasions before the Senate Foreign Relations Committee. He testified that the Central Intelligence Agency, which he formerly headed, had not interfered in political affairs related to the late Chilean President Salvador Allende.

Helms' new role as prospective "go-between" for Iranian interest seeking business in the United States could possibly embroil him with the U.S. regulations governing conflicts of interest for former federal employees.

The U.S. Criminal Code prohibits former government employees from taking part for at least one year in proceedings involving foreign individuals or corporations which might have fallen under their official responsibility.

Helms officially resigned from his Iranian ambassadorship Jan. 31 of this year. Legal experts were unclear yesterday whether Helms' role as ambassador would have given him specific responsibility under the U.S. code for Iranian firms or persons doing business here.

Helms said he formed his consulting firm Oct. 3 in association with Iranian businessman Rahim M. Irvani. Irvani is an executive of the Melli Industrial Group in Tehran. The consulting firm has not yet accepted any clients, and Helms said he has not registered here as a lobbyist.

"I'm quite different from a lobbyist," he said. "I'm not trying to influence our government or our country. All I'm trying to do is help our balance of payments."

Shareholder List of CCAH

(CCAH owns CCAI)

FEDERAL
RESERVE
INTERIM
MEMO
12/11/80

Percentage Ownership

		<u>In Current Application</u>	<u>In Previous Application</u>
3.82	1. Sheikh Kamal Adham	20.0% ✓	24.0%
	2. Abdullah Darwaish (for Mohammed bin Zaid al Nahyan a minor) 4.2	14.67	24.0
4.78	3. Abu Dhabi Investment Authority	9.33	
	4. Stock Holding Company (for Sheikh Rashid bin Saseed al Maktoum)	9.33	
3.44	5. Abdul Raouf Khalil	9.33 ✓	
1.42	6. Crescent Holding Company (for Sheikh Mohammed bin Rashid al-Maktoum)	9.33	
	7. Mashrig Holdings (for Sheikh Hamad bin Mohammed, al Sharqi)	6.67	
	8. Sheikh Humaid bin Roshid al Naomi	5.33	
2.11	9. Faisal Saud al Fulaij 4.7	4.67 ✓	12.0
	10. Ali Mohammed Shorafa	4.67	
	11. Mohammed Hussain Qabazard	3.33	
	12. Gulf Investment and Real Estate Company	1.67	5.0
	13. Real Estate Development Company	1.00	
.84	14. El Sayed El Sayed El Gohari	.67	
	Total In Current Application	100.00%	
	1. Mohammed Rahim Motaghi Irvani ^{1/}		5.0
	2. Other Investors to be determined		30.0
	Total In Previous Application		100.00%

- 1/ Mr. Irvani was not one of the Middle Eastern Investors who became party to the Consent Decree with the SEC. Mr. Irvani is an Iranian citizen who left Iran after the fall of the Shah because he feared action against him by the new regime in Iran. Mr. Irvani is believed to be living in Switzerland though his actual whereabouts is unknown.

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The New Republic (c) 1986 IAC

To manage his rapidly expanding financial portfolio, the Swami turned to Donald Fraser and W. Ernest Miller, two Canadian businessmen who eventually set him on the path to Iranamok. In the winter of last year, while his American holding company, Triad America Corp., was experiencing a financial squeeze, Khashoggi recruited Fraser and Miller to invest in his failing empire. One of Khashoggi's former lieutenants, Ebanue Floor, says that Miller was a devoted disciple of the Swami. Miller would clasp his hands and bow whenever he entered the holy man's presence, says Floor. The CIA took a slightly less beatific view of Miller and Fraser. In a 1986 memo to CIA Director Casey, Miller was described as a "tough and sleazy individual," and Fraser as "a financier who operates out of the Cayman Islands."

Floor says he flew with Khashoggi to the Caymans in March of last year to discuss with Miller and Fraser further financing for Khashoggi's troubled American company. At one point a dispute arose as to precisely how many millions the Canadians had invested with Khashoggi. According to recent testimony by Floor in a bankruptcy proceeding, only one person could resolve the dispute: "We had to get the guru on the telephone."

IT WAS DURING these meetings that Khashoggi, who by now was serving as Ghorbanifar's banker on arms deals with Tehran, persuaded the Canadians to put up \$10 million toward financing yet another shipment of TOW missiles to the Ayatollah. Khashoggi promised the Canadians a profit of at least \$1 million. But the deal was aborted in midstream when American officials grew wary of Ghorbanifar, the middleman who repeatedly failed CIA lie detector tests, registering deception on every question but "What is your name?" By October 1986 events were starting to spin out of control. On the surface, the Swami was still living it up, attending his 38th birthday party that was thrown by Khashoggi in Beverly Hills (now the Swami's U.S. headquarters) and celebrating with such luminaries as Cary Grant, Liz Taylor, Donald Nixon, Mary Hart, and Representative Mervyn Dymally. But beneath the surface, the Canadians were becoming distinctly nervous about their investment. Thus began the crude attempt to blackmail the administration, invoking, as one lever, the awesome power of Chandra Swami Maharaj.

All this might seem somewhat incredible were the facts not immortalized in CIA files recently released by congressional investigators. The files, buttressed by closed-door testimony before the Iran-contra committees, tell the following story: Khashoggi dispatched New York oilman Roy Furmark to the CIA's Langley, Virginia, headquarters. Furmark, who conveniently was an old friend of Director Casey and is alleged to have received an \$80,000 "commission" on the arms deal, told agency officials that the Canadians felt they had been "swindled" and were about to go public unless they were made whole. Furmark claimed the Canadians had retained a high-priced Washington law firm to file suit against the U.S. government. They also were about to inform liberal Democrats on Capitol Hill about the administration's shenanigans, he warned.

Casey's senior advisers were petrified. "We have a festering sore for which no treatment has been prescribed," wrote Charles Allen, national intelligence officer and one of the agency's chief Iran analysts, in an October 14, 1986, memo to the CIA chief. "We face a disaster of major proportions." Three days later, in another memo to Casey, Allen reported Furmark's assessment that the Canadians were not to be trifled with. They "have a reputation for dealing roughly with those who do not meet their obligations," Allen stated.

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DISK 2 PAGE 354
MESSAGE # 533
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27TH MARCH 1986

CYM/SMA/0914

C.C. MR. S.M. SHAFI
GENERAL MANAGER
LATIN AMERICA REGION
BCCI MIAMI

MR. AKHTAR ANIS
EXECUTIVE IN CHARGE INTERNATIONAL DIVISION
BCCI LONDON

SUBJECT: EURO BANK CORPORATION, GEORGE TOWN, GRAND CAYMAN
=====

REFERENCE YOUR TELEX LDN/4709/03G OF DATE, WE ADVISE YOU AS
UNDER:-

EURO BANK IS A LOCAL SMALL BANK OPERATING ONLY OFFSHORE BUSINESS AND
THEY DO PLACE FUNDS WITH US BETWEEN DLRS 1,000,000/- - DLRS 3,000,000.00
TIME TO TIME.

WE WERE APPROACHED BY ONE OF THE DIRECTORS OF THE SAID BANK WITH
THE PROPOSAL THAT THE BANK WILL DEPOSIT USDLRS 10,000,000.00 WITH US
IN THE NAME OF A COMPANY WHICH IS UNDER FORMATION IN THE CAYMAN
ISLANDS AT THE REQUEST OF MR. ADNAN KHASHOGGI, AND THAT COMPANY
WOULD LIKE TO HAVE CREDIT LINE AGAINST THESE DEPOSITS WHICH WILL
BE UNDER LIEN TO US TO WHICH WE HAVE NOT MADE ANY COMMITMENT.

THE ABOVE MATTER WAS DISCUSSED WITH US ONCE IN THE FIRST WEEK OF
MARCH AND AFTER THAT NO FURTHER COMMUNICATION HAS BEEN MADE BY THEM.

IN CASE THE ABOVE BANK REVERT TO US AGAIN, WE SHALL REFER THE MATTER
TO YOU FOR YOUR PERUSAL AND GUIDANCE WITHOUT ANY COMMITMENT TO THEM.

BEST REGARDS,

S.M. AKBAR
BCCI GRAND CAYMAN
264862 BCC LAR*1
DURATION 242 SECS LISTED 0233 7701-06-00

PAGE 360 IS NEXT

C 0002385

13K 170RE :
 MESSAGE # 775
 01 11 3581821 : _ICE:RT _TELEX: 842469183.015+ _ 4691 :
 RV:

RCA
 YR ID ?
 264862 BCC LAR
 PLS SELECT SERVICE CRT

RCA TELEX GA 7842469183.015+
 MAY 15 1984 839904
 ECCI 469183MC
 GA TEXT ?
 :

FLA NO 4181

THE MANAGER
 ECCI MONTE CARLO

RE: RONAN KHASHOGGI ACC. NO. 1003739

WE ARE IN RECEIPT OF CHECK OF US\$100,000.00 PAYABLE TO EASTERN AIRLINES. WOULD APPRECIATE IF YOU WOULD KINDLY BLOCK \$100,000.00. WE ARE SENDING YOU CHECK BY DHL AND YOU ARE KINDLY REQUESTED TO CREDIT THE PROCEEDS BY TELEGRAPHIC TRANSFER TO SECURITY PACIFIC INTERNATIONAL NEW YORK FOR ACCOUNT OF ECC MIAMI FOR ACCOUNT OF EASTERN AIRLINES. VALUE 19 MAY 1986.

RGDS,

AKBAR BILGRAMI
 ECCI-LAR
 MIAMI

ECCI 469183MC.....
 0001.8

*
 THANK YOU FOR USING RCA

\
 DELIVERED MSG
 DURATION 151 SECS LISTED 2114 00001-13-20

PAGE 2 IS NEXT

613

25

PYT 3375/L

-GTW 0829 EDT 03/05/86

1 05 1986 0831
25808A BCCINY MT

DI 469183MC

INWARD
TELEX MESSAGE

5
C NO 5535 TS/GE DTD 5-3-66
BCCI NEW-YORK
BCCI MONTE-CARLO

MAR 5 1986

CREDIT & COMMERCE INTL.
NEW YORK

ST NO ~~25808A~~ FOR USD 30.000,- DTD 5-3-86

LUE 7-3-86 PLS PAY USD 30.000.- TO CITIBANK
A - 5TH AVENUE NEW-YORK CITY 10019 FOR CREDIT
AKORP A/C NO 04605128599 B/C ADNAN KHASHOGGI.
REF : OTT/MC/NY/058/86 (.)

JS
DI MONTE-CARLO
25808A BCCINY MT.

TEST AGREED
16
ATTACHED

DI 469183MC
PLY VIA ITT

BY DISC.
closed time 00:01:24

INTED AT 0830 EDT 03/05/86

A22909

NY 0020777
CONFIDENTIAL

UNCLASSIFIED

UNCLASSIFIED

Page 517
4 P.M. 5:45 P.M.

1 Mr. Miller's understanding was. There was some confusion
2 about how Mr. Miller and his associates would participate in
3 some profits.

4 And so when Mr. Khazdoppi came back, we explained
5 to him what our understanding of the transaction was. He
6 says, Oh, no, it's a joint venture, what's mine is yours,
7 what's yours is mine, we're going to be partners. And so he
8 took out my yellow pad and he sketched a transaction in
9 which--and he explained how the \$10 million dollars of funds
10 would move from Triad International Marketing--

11 Q Maybe we can walk through the document as he drew
12 it so we'll know what you're talking about. You're pointing
13 at a square at the top of the page?

14 A Yes, there's a square at the top that has TIM,
15 Triad International Marketing, and he said that the money,
16 the \$10 million dollars, would go into a joint venture and
17 that the \$10 million dollars would go--and he had a box with
18 a "V", and he said, "This is where we buy the arms." Then he
19 drew an arrow down to a box in which he put the words

20 "Iran". Then he drew a line back up through a box in which
21 he wrote the name "Messieur Chabrier". He wrote a name in
22 he was trying to pronounce it and he wrote it out and, you
23 know, it's obviously the name of Messieur Chabrier.
24 Off to the right, he wrote "Credit Suisse" and he

25 wrote \$10 million dollars back into the joint venture, and

UNCLASSIFIED

Page 517 - Continued Document Page 517

1 then the \$10 million dollars became the \$11 and then--the
2 square actually starts with "Credit Suisse". In other words
3 \$10 million dollars from Credit Suisse goes into this
4 venture, the venture buys the arms, the arms are shipped to
5 Iran, Iran pays for the arms, except when the money comes
6 back through, it's \$11 million dollars, and there was to be
7 a profit. Part of the profit was to go to Triad
8 International Marketing and part of the profit was to go to
9 others, including something that he described as BOCI, and
10 then he put \$10 million dollars, "40,000" and underlined it.
11 And indicated that this \$10 million dollars would go through
12 four clans producing \$40 million dollars of sale and,
13 therefore, additional profit.

14 Following his laying out of this transaction, we
15 then wrote the document and everybody went off to have
16 lunch and the attorney and I busily worked at revising the
17 document to create the entity, Triad International, and
18 form the joint venture which the document contemplated.

19 Then we even went so far as to prepare the Preliminary Note
20 about Mr. Khazdoppi would own the money to Vertig and then
21 Triad would own the money to Mr. Khazdoppi, and we had
22 other documents that were involved.

23 Q All right. Let me interrupt you. The attorney
24 you're referring to is Mr. Ray?

25 A Yes, Graham P. Ray.

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Page 517 - Continued Document Page 517

Classified by 1045
Declassify on: OADR
Date: 10-1-80
Galt/Galt

UNCLASSIFIED

1 2 Another question. You're referring to the joint
2 venture as Trivert in the subsequent agreement. The name in
3 the box that you have indicated as the joint venture--
4 Mr. Chasheppi has a different name. Do you know what that
5 name is?

6 A No. Well, he referred to some vehicle. I thought
7 he used the word garnet, the name Garnet.

8 Q Okay.

9 A Put the Trivert name, actually what happened at the
10 top where "Tiger" is, he put a box and he put an "X" in it and
11 that was going to be the joint venture. The point he made
12 was that Triad International Marketing had the agreement but
13 because of this financing, that Trivert would have it. And
14 so Trivert took the place of Triad International Marketing.
15 Is my understanding of this document.

16 Q That is, Triad and Vortex--is that the derivation?

17 A Yes, that's how they came up with the name.

18 Q Now, the box with the "X" in it--

19 A Yes.

20 Q Did he say anything to indicate who that person or
21 entity was?

22 A No, it was the source--and I'm not sure whether it
23 was one source or several sources--that's just--the weapons
24 were going to come from "X".

25 Q Okay. Now, did he ever mention the involvement of

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31

Revised Gantt - Confidential Source Page 10

UNCLASSIFIED

1 the Israeli government or Israeli citizens?

2 A Not in my presence. I have no idea what he said to
3 Mr. Miller apparently but not in my presence.

4 Q Was ~~Mr. Miller~~ ^{Mr. Chasheppi} the only individual that he
5 specifically named as being involved in the transactions?

6 A Yes, sir. He referred to his associates two or
7 three times. He said, "These are my associates," and when he
8 wrote HCCI down, he said some name but I can't recall what
9 it was.

10 Q Now, at these meetings in the Cayman Islands or at
11 any future time, did he indicate the identities of any other
12 individuals involved in the arms transactions?

13 A Not to me.

14 Q Did he ever indicate the involvement of United
15 States government officials?

16 A Not that I recall.

17 Q Did he ever make mention of involvement of a
18 Mr. McFarland or Peindarter or Smith?

19 A Not in my presence that I can recall.

20 Q So, as far as you know, there was an arms
21 transaction to Iran but you did not know the source or who
22 was involved other than ~~Mr. Chasheppi~~ ^{Mr. Chasheppi}?

23 A That is correct, but it was not just a transaction,
24 there were to be a series of transactions and Mr. Chasheppi
25 told me that he hoped in the future there would be;

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32

Revised Gantt - Confidential Source Page 11

B. R. & W. INDUSTRIES LTD.

Telephone: Stoke Goldington
(090 855) 466 or 543 550

Long Barn House
Ravenstone
Olney
Bucks
MK46 5AS

Telex: 826324/BRWIND G

21st November 1985

Afrique Consultant Est.) And ORLETON TRADER INC
74 Auelestrasse Via Espana y calle Colombia
VADUZ Apartado 1824
Lichtenstein PANAMA 1
Republic of Panama

PRO-FORMA INVOICE NO.WO119

For the supply and delivery of 1250 units BCM 71A
TOW MISSILES

Place of Manufacture - U.S.A.

Date of Manufacture - 1980/81

All brand new and in manufacturers original packing

Price per unit - 7,500 USD. C AND F Destination

Total Cost - 9,375,000 USD.
(Nine million, three hundred and
seventy-five thousand USD.)

Delivery - Immediate, from stock

Terms of payment -

By a Letter of Credit, confirmed in London by an acceptable
Bank. L/C to be irrevocable, transferable and divisible
nominating purchase of Lift Trucks.

Amount payable within 48 hours after arrival of goods at
destination against presentation of shipping documents,
invoices, inspection and acceptance certificates signed by
the Buyer's Representative and counter-signed by the
Seller's Representative, who will accompany the aircraft.

The Buyer to undertake in the Letter of Credit confirming
that the aircraft will be refuelled free of charge for
return journey.

Letter of Credit to become firm subject to Buyer receiving
a Performance Bond for the sum of 175,000 USD. against
delivery of goods

Bankers - Bank of Credit & Commerce International S.A.
140/141 Park Lane, London W 1

...*Ben Banerjee*.....
Ben Banerjee

For & on behalf of

R D AND W

LE/33

ACH CH

BUCLNA G
TJX 734 1919 1918 ISS303
TJX REF LUN 0787/12R 27.12.65

CREDIT SUISSE
MUR BRANCH SWITZERLAND

NIL

(DATED 27.12.85)

ZURICH OFFICE

L/C NO BT/GRR/211265/85

HE REQUEST OF B.R. AND (B) INDUSTRIES LIMITED, WE CONVEY WITHOUT
ENGAGEMENT OR LIABILITY ON OUR PART THE FOLLOWING MESSAGE FOR
TRADE LTD, BERN AIRPORT 3123 BERN, SWITZERLAND

० नृपति

CONSIGNEE UNDER BANK MELLI IRAN LONDON L/C NO 000027 LUN
15/85 DATED 24/12/85 HAS GIVEN AN UNDERTAKING TO REFUEL THE
CRAFT CARRYING THE GOODS SUBJECT OF PROFORMA INVOICE NO WO.119
ED.25/11/85. THIS UNDERTAKING WAS AUTHENTICATED BY BANK MELLI
LONDON.

● ● ● ● ●

BRANCHES
OF CREDIT AND COMMERCE INTERNATIONAL S.A.

CRECUM LONDON

1271285

天目山

495



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME LICENSED DEPOSIT TAKER
 LEADENHALL STREET BRANCH 100 LEADENHALL STREET LONDON EC3A 3AQ

20th December, 1985

National Westminster Bank Plc
 International Banking Division
 Bonds and Guarantees Department
 Overseas Branch
 National Westminster Tower
 25, Old Broad Street
 London EC2N 1HQ

Dear Sir,

RE: OUR COUNTER GUARANTEE NO. 3380/85 FOR US\$175,000/-
IN FAVOUR OF SEPAH PASDARN TEHRAN IRAN. C/O BANK MELLI
IRAN, 4, MOORGATE, LONDON EC2R 6AL

We request you to issue your Performance Bond Guarantee in favour of Messrs. Sepah Pasdarn Tehran, C/O Bank Melli Iran, London on account of BR & W. Industries Limited, reading as under:

QUOTE:

With reference to the proforma invoice no. WO. 119 dated 25th November, 1985 relating to 1,250 lift trucks concluded between BR & W Industries Limited, (hereby known as Supplier) and Messrs. Sepah Pasdarn (hereby known as purchaser) and by the request of Sepah Pasdarn for the good performance of the undertaking accepted in accordance with the said proforma invoice no. WO.119 in respect of Lift Trucks we hereby guarantee and undertake, if it is noticed by Sepah Pasdarn that the Supplier has offended from their liabilities under the contract to pay immediately after receipt of the first written demand to or to the order of Sepah Pasdarn up to a total of US\$175,000/- (United States Dollars: One hundred and seventy five thousand only) any amount in respect of the guarantee under any subject of reason ascertained by Sepah Pasdarn without any need for issuance of declaration form or execution of any action through administrative legal or other authority or proving the neglect untruth of correctness.

This Letter of Guarantee is valid until the official closing time on 4th January, 1986 and is extendable for any period requested by Messrs. Sepah Pasdarn. Should the bank not be able or willing to extend the validity hereof or the guarantee party should not provide the necessities of the extension and obtain the concurrence of the bank of the extension then the bank undertakes to pay without need for a second demand the said sum in favour or to the order of Messrs. Sepah Pasdarn. UNQUOTE

While forwarding the Performance Bond to Bank Melli, Iran London, please notify them that the Performance Bond issued by you is in respect of the following consideration, and therefore it will become effective and valid only on fulfillment of the conditions mentioned here in below:-

✓✓✓ **FOREIGN EXCHANGE LICENSED DEPOSIT TAKER**
LEADENHALL STREET BRANCH 100 LEADENHALL STREET LONDON EC3A 3AD

EXHIBIT No. 133

27th December 1985

Midland Bank International
110 Cannon Street
London EC4N 6AA

Attention: Mr. Taylor

Dear Sirs

At the request of our customers Messrs. B.R. & W. Industries Ltd, we hereby advise that we hold their irrevocable instructions to pay you US\$175,000 United States Dollars One Hundred and Seventy Five Thousand, (after deduction of bank charges) for the credit of account number: 68802925 held with yourselves, only after negotiation and receipt of payment (without any reserve) by us for account of B.R. & W. Industries Limited under letter of credit number 000027 Lon 20745/85 dated 24th December 1985 issued by Bank Mellat Iran, London.

This advice is valid up to 22nd January 1986, which is the validity date of the above mentioned Letter of Credit.

Thanking you

Yours faithfully


AUTHORISED SIGNATURE 1365


AUTHORISED SIGNATURE 1012

498

SOCIETE ANONYME LICENSED DEPOSIT TAKER
LEADENHALL STREET BRANCH 100 LEADENHALL STREET LONDON EC3A 3AD

20th December, 1985

National Westminster Bank Plc
International Banking Division
Bonds and Guarantees Department
Overseas Branch
National Westminster Tower
25, Old Broad Street
London EC2N 1HQ

Dear Sir,

RE: OUR COUNTER GUARANTEE NO. 3380/85 FOR US\$175,000/-
IN FAVOUR OF SEPAH PASSDARN TEHRAN IRAN, C/O BANK MELLI
IRAN, 4, MOORGATE, LONDON EC2R 6AL

We request you to issue your Performance Bond Guarantee in favour of Messrs. Sepah Pasdarn Tehran, C/O Bank-Melli Iran, London on account of BR & W. Industries Limited, reading as under:

QUOTE:

With reference to the proforma invoice no. WO. 119 dated 25th November, 1985 relating to 1,250 lift trucks concluded between BR & W Industries Limited, (hereby known as Supplier) and Messrs. Sepah Pasdarn (hereby known as purchaser) and by the request of Sepah Pasdarn for the good performance of the undertaking accepted in accordance with the said proforma invoice no. WO.119 in respect of Lift Trucks we hereby guarantee and undertake, if it is noticed by Sepah Pasdarn that the Supplier has offended from their liabilities under the contract to pay immediately after receipt of the first written demand to or to the order of Sepah Pasdarn up to a total of US\$175,000/- (United States Dollars: One hundred and seventy five thousand only) any amount in respect of the guarantee under any subject of reason ascertained by Sepah Pasdarn without any need for issuance of declaration form or execution of any action through administrative legal or other authority or proving the neglect untruth of correctness.

This Letter of Guarantee is valid until the official closing time on 4th January, 1986 and is extendable for any period requested by Messrs. Sepah Pasdarn. Should the bank not be able or willing to extend the validity hereof or the guarantee party should not provide the necessities of the extension and obtain the concurrence of the bank of the extension then the bank undertakes to pay without need for a second demand the said sum in favour or to the order of Messrs. Sepah Pasdarn. UNQUOTE

While forwarding the Performance Bond to Bank Melli, Iran London, please notify them that the Performance Bond issued by you is in respect of the following consideration, and therefore it will become effective and valid only on fulfilment of the conditions mentioned here in below:-

Handwritten signature



: - Page 2 - :

(a) An Irrevocable Letter of Credit for US\$11,250,000/- (United States Dollars: Eleven million, two hundred and fifty thousand only) issued by Bank Melli Iran, London of the enclosed text of Format, which were exchanged between BR & W Industries Ltd and Messrs. Sapah Pasdarn and approved by both of them.

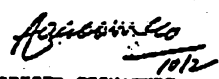
(b) The Letter of Credit as stipulated under clause (a) above must reach us by 24th December 1986 evidencing the delivery date C&F Tehran dated not later than 4th January, 1986 and expiry 22nd January, 1986.

On receipt of the above Letter of Credit by us and our notification to you about the foregoing your Performance Bond Guarantee will become operative.

However, we hereby indemnify you from all consequences in respect of your issuing the guarantee on our behalf and further undertake to pay to you your charges in consideration of your so doing.

Yours faithfully,


(7)
AUTHORISED SIGNATURE.


AUTHORISED SIGNATURE.

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME LICENSED DEPOSIT TAKER
100 LEADENHALL STREET, LONDON EC3A 3AD

IRREVOCABLE
DOCUMENTARY CREDIT.

Number LG/3380/85

Sepah Pasdarn
Tehran,
Iran,
Bank Mellat Iran,
Moorgate,
London E.C.2.

4th December, 1985

Our Guarantee No. LG/3380/85
USD 175,000/- in your favour

Reference is made to the agreement between B.R. & W. Industries Ltd, Longbarn House, Eaststone, Olney, Bucks (the seller) and Sepah Pasdarn, Tehran, Iran (the buyers) concerning the purchase of 1250 Units Lift Trucks (Proforma Invoice No. W0119 dated 1 November 1985), we hereby irrevocably undertake to pay to you on your first demand any amount up to a maximum of U.S. Dollars 175,000/- (say US Dollars one hundred and seventy five thousand only), upon receipt of your written confirmation that the amount claimed, has fallen due.

Written confirmation must reach us at the latest by 18th December, 1985, after which date our Guarantee will automatically cease to exist and our payment obligation will expire.

Guarantee becomes operative and will be valid only after receipt by us of an irrevocable and confirmed Letter of Credit for the sum of USD 175,000/- in favour of B.R. & W. Industries Ltd, and acceptable to them.

Guarantee is construed and governed in accordance with English Law and is subject to the jurisdiction of English Courts in the event of any dispute.



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME LICENSED DEPOSIT TAKER

LEADENHALL STREET BRANCH 100 LEADENHALL STREET LONDON EC3A 3AD

Midland Bank Plc,
 196A Piccadilly,
 London, W1.

30th December, 1985.

Dear Sirs,

At the request of our customers M/S B.R. & W. Industries Limited, we hereby advise that we hold their irrevocable instructions to pay you US\$175,000/- (United States Dollars: One Hundred and Seventy Five Thousand), (after deduction of bank charges) for the credit of account no. 69026529 held with yourselves, only after negotiation and receipt of payment (without any reserve) by us for account of B.R. & W. Industries Limited under Letter of Credit No. 000027 LON 20745/85 dated 24th December, 1985 issued by Bank Mellat Iran, London.

This advice is valid up to 22nd January, 1986 which is the validity date of the above mentioned Letter of Credit.

Thanking you.

Yours faithfully,

AUTHORISED SIGNATURE.

1365

AUTHORISED SIGNATURE.

Telephone: Stoke Goldington
(090 855) 466 or 543

Long Barn House
Ravenstone
Olney
Bucks
MK46 5AS

Telex: 826324/BRWIND G

PRO-FORMA INVOICE NO.W0119

For the supply and delivery of 1250 units BCM 71A
TOM MISSILES

Place of Manufacture - U.S.A.

Date of Manufacture - 1980/81

All brand new and in manufacturers original packing

Price per unit - 7,500 USD. C AND F Destination

Total Cost - 9,375,000 USD.
(Nine million, three hundred and
seventy-five thousand USD.)

Delivery - Immediate, from stock

Terms of payment -

By a Letter of Credit, confirmed in London by an acceptable
Bank. L/C to be irrevocable, transferable and divisible
nominating purchase of Lift Trucks.

Amount payable within 48 hours after arrival of goods at
destination against presentation of shipping documents,
invoices, inspection and acceptance certificates signed by
the Buyer's Representative and counter-signed by the
Seller's Representative, who will accompany the aircraft.

The Buyer to undertake in the Letter of Credit confirming
that the aircraft will be refuelled free of charge for
return journey.

Letter of Credit to become firm subject to Buyer receiving
a Performance Bond for the sum of 175,000 USD. against
delivery of goods.

Bankers - Bank of Credit & Commerce International S.A.
140/141 Park Lane, London W.1

.... 

Ben Banerjee

For & on behalf of

B. P. AND W. INDUSTRIES LTD.

Telephone: Stoke Goldington
(090 855) 466 or 823 550

Long Barn House
Ravenstone
Olney
Bucks
MK46 SAS

Telex 826324/BRWIND G

27th November 1985

Arabian Gate General Trading Co
P.O. Box 5611
DUBAI, U.A.E.

PRO-FORMA INVOICE NO. 85/1118

Reference Your Order No. 0002-AD-ENG-85

To Supply:

- | | |
|---|-------------|
| 1. 5,000 Rockets Type PG-7WM - 150 USD. each | 750,000 USD |
| 2. 20 Strella 2M Anti-Aircraft Missile -
37,000 USD each | 740,000 USD |
| 3. Launcher for Strella 2 Units - 8,000 USD
each. | 16,000 USD |
| 4. 2,000 Automatic Rifle AKMS 175 USD each | 350,000 USD |

TOTAL : 1,856,000 USD

(One Million, eight hundred and fifty-six thousand USD)

All items F O B Poland

Terms of Payment - By irrevocable, confirmed Letter of
Credit payable to our account.
Our Bankers - Bank of Credit & Commerce International S.A
140/141 Park Lane, London W.1

Packing Detail attached.

Ben Banerjee
.....
Ben Banerjee
For and on behalf of
R. AND W. INDUSTRIES LIMITED

Yours faithfully

AUTHORISED SIGNATURE 1365

AUTHORISED SIGNATURE 10/2



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME LICENSED DEPOSIT TAKER
 LEADENHALL STREET BRANCH 100 LEADENHALL STREET LONDON EC3A 3AD

20th December, 1985

National Westminster Bank Plc
 International Banking Division
 Bonds and Guarantees Department
 Overseas Branch
 National Westminster Tower
 25, Old Broad Street
 London EC2N 1HQ

Dear Sir,

RE: OUR COUNTER GUARANTEE NO. 3380/85 FOR US\$175,000/-
IN FAVOUR OF SEPAH PASSDARN TEHRAN IRAN. C/O BANK MELLY
IRAN, 4, MOORGATE, LONDON EC2R 6AL

Agency for International Development
Washington, D.C. 20523

Gay

SEP 17 1991

INFORMATION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/FA, John F. Owens, Acting
FROM: FA/FM/C, Michael G. Usnick *MUsnick*
SUBJECT: A.I.D. Funds and the Bank of Credit and Commerce
International (BCCI)

Background: In early August, questions began to arise over whether any A.I.D. funds were affected by the BCCI scandal. On August 10, GC and FM issued a worldwide cable instructing missions to refrain from making deposits or extending credit on behalf of contractors or grantees or making any new commitments of any kind to BCCI or its affiliates without obtaining advance approval of AID/Washington. The cable also instructed missions to provide a summary report on the status of any current activities which may involve BCCI with A.I.D. financing.

This memorandum summarizes the responses received from the missions. Since the August 10 cable did not ask for negative responses, I am sending a follow-up cable to the field asking for (1) confirmation from each mission regarding current activities, and (2) a listing of any U.S. dollar transactions through BCCI or its affiliates over the past five years. The second item will improve our data base, since FM has only been tracking cash transfers and sector grants centrally by bank and account number for the past two years. This data will be useful if BCCI stays in the headlines.

Findings

1. Only four countries -- Cameroon, Bangladesh, Yemen and Botswana -- have A.I.D. funds that are affected by BCCI activities.
2. In the case of Cameroon, a 1989 agriculture sector grant in the amount of \$10 million was deposited in BCCI/New York in a separate, non-commingled account in the name of the Government of Cameroon, as requested by that government. The funds were used to finance the importation of fertilizer. USAID/Cameroon was advised by the Central Bank of Cameroon in May, 1991 that the BCCI/New York account was closed out in February, 1991, and that the residual balance of \$143 thousand was transferred to Standard Charter Bank

- 2 -

of New York and subsequently used in April to liquidate Cameroonian debt. The Director General of the Central Bank has agreed to provide copies of the bank statements to USAID/Cameroon.

In Cameroon itself, \$10 million equivalent of local currencies owned by the Government of Cameroon are on deposit at the BCCC, the local affiliate of BCCI. These local currencies were made available by the Government of Cameroon, from its own resources, to match the U.S. dollar transfers made to BCCI/New York. The Government of Cameroon selected the BCCC as its fiduciary bank in Cameroon, with USAID concurrence. These local currencies are jointly programmed by the Government and the USAID, and BCCC will only release these funds to mutually agreed upon recipients with USAID concurrence. Although the August 6 Wall Street Journal article on BCCI and the Cameroon stated that these local currencies were frozen, USAID/Cameroon reports that these accounts are open and functioning.

3. In Bangladesh, a U.S. grantee, Pathfinder International, has \$167 thousand of A.I.D. advances frozen in its account in BCCI/Dacca. The advances relate to an OFDA-funded cyclone disaster assistance grant. The grantee has been advised that it must fully execute the terms of the grant, notwithstanding actions by BCCI to freeze all accounts. Since prolonged delay would adversely affect relief and rehabilitation, OFDA has issued a budget allowance for an additional \$167 thousand for the project. Pathfinder will reimburse A.I.D. for this amount once its account is unfrozen.
4. A similar situation exists in Yemen, where two contractors -- John Snow, Inc. and Academy for Education Development -- have accounts with BCCI/Sanaa for their local support operations. Both accounts are maintained by the contractors primarily against USAID advances, and together total approximately \$200 thousand in local currency. The contractors immediately opened new accounts with other local banks for their local operations, and have been advised that A.I.D. is not responsible for the frozen bank accounts maintained in BCCI.
5. APRE has reported that Botswana has two small sub-loans outstanding (totaling \$35 thousand) that are guaranteed by BCCI under the Private Sector Revolving Fund. Under the

- 3 -

terms of this specific program, A.I.D. disbursed \$150 thousand to Security Pacific National Bank in 1989, which then set up a letter of credit arrangement with BCCI to allow BCCI to provide loans to overseas borrowers. The Botswana loans are the only loans against the \$150 thousand. Since the loans carried a 50% guaranty, our contingent liability is approximately \$17.5 thousand. However, there may not be any loss if the borrowers repay the loans, even if BCCI goes under. Nevertheless, APRE informed FM that it intends either to (1) reduce the letter of credit to a much lower level, or (2) transfer the loans to another bank.

Conclusions

On balance, A.I.D. has very little exposure with BCCI. Cameroon appears to be the only A.I.D. recipient country in which A.I.D. funds, other than contractor advances, have been deposited in BCCI or affiliated accounts.

FM is taking additional steps to ensure that this information is complete and accurate.

cc: AA/OPS, Tim Fry, Acting
AA/AFR, Scott Spangler
AA/ENE, Carol Adelman
AA/APRE, Henrietta Holsman Fore
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The Abu Nidal Terror Network

July 1987

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Preface

The purpose of this paper is to contribute to public discussion and consciousness of the terrorist threat faced by the United States and other countries. We have sought to illustrate the nature and magnitude of this threat by describing in some detail the Abu Nidal organization (ANO), one of the world's deadliest terrorist organizations. It is not our intent to present an exhaustive catalogue of all information available to us on the activities or relationships of this organization. The detail provided in this paper is, however, sufficient to allow the reader an informed understanding of how ANO operates. To do more would only detract from our ultimate objective—to end the operations of this and other terrorist organizations. Our success in this endeavor depends importantly on preserving sensitive sources of intelligence, as well as the cooperation of other countries willing to shoulder the burdens of an uncompromising struggle against terrorism.

JUL 1987

The Abu Nidal Terror Network

Executive Summary

The Abu Nidal organization (ANO) is one of the world's most dangerous terrorist organizations; ANO attacks have killed or injured almost 900 people from at least 20 countries. Although ANO is thought of as a Middle Eastern organization, the group has operated on three continents, and almost two-thirds of ANO attacks have occurred in Western Europe. Prominent among the almost 90 terrorist attacks that we believe ANO has carried out since 1974 are the Rome and Vienna airport attacks in December 1985, the Neve Shalom synagogue attack in Istanbul, and the Pan Am Flight 73 hijacking in Karachi—both in September 1986. The ANO also has heavily targeted Palestinians and other Arabs.

State support has been an important element in ANO's success. This terrorist organization has received assistance from Iraq, Syria, Libya, East Germany, and Poland. Until very recently, and perhaps still, ANO has operated businesses in Warsaw and the Soviet sector of Berlin ("East Berlin"). These businesses, which have dealt principally in arms, have functioned with the knowledge, consent, and assistance of the Polish and East German Governments. This government-assisted arms trafficking has helped ANO receive weapons.

We have discussed this information with various governments. The Governments of Poland and East Germany have denied all knowledge of such activities in spite of the fact that we are aware of the names of the companies, the identities of important officers in those companies, the addresses of the companies, as well as their telephone and telex numbers. We also know the names and positions of at least some of the Polish and East German officials who have dealt with the ANO front men and specifics of some of their transactions.

The ultimate goal of the ANO is the destruction of the state of Israel and the establishment of a Palestinian state in its stead. As an interim goal, the ANO has sought to supplant Yasir 'Arafat's Fatah as the focus of the Palestinian movement. The ANO is committed to the use of violence to accomplish these goals.

The ANO is headed by Sabri al-Banna whose *nom de guerre* is Abu Nidal. Sabri al-Banna split with 'Arafat and founded his organization, largely as a response to 'Arafat's professed ban on Palestine Liberation Organization (PLO) participation in terrorist attacks outside Israel and the occupied territories.

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The Abu Nidal Terror Network

Introduction

The Abu Nidal organization (ANO) is among the most dangerous of the radical Palestinian terrorist groups, carefully planning its operations and maintaining tight compartmentation. The clandestine cadres of the ANO may number as many as 400, organized in small cells worldwide. There is also a support structure of several hundred more, drawn primarily from Palestinian students around the world; the ANO has a militia in Lebanon that is growing as the group actively recruits from other Palestinian organizations.

The ANO has conducted about 90 terrorist attacks since its inception in 1974—almost half of them since the beginning of 1984 (see appendix A for a chronology of the most significant ANO terrorist activities). At least 300 people have died and more than 575 have been wounded in ANO attacks. Despite its Middle Eastern roots, the ANO has conducted almost three-quarters of its attacks outside the Middle East, almost two-thirds of them in Western Europe. It has staged attacks in over 20 countries on three continents and has cells in cities in many countries outside the Middle East (see foldout map in back).

The ANO claims that its enemies are Israel and its supporters, as well as moderate Arab governments and leaders, whom it considers traitors. However, the victims of ANO's indiscriminate terror are often innocent bystanders and are of nationalities other than the intended target (see tables 1 and 2). Among the most recent examples are:

- The attempted hijacking of Pan Am Flight 73 in Karachi, Pakistan, on September 5, 1986, which left 21 dead—14 Indians, three Pakistanis, two Mexicans, and two Americans.



Rome, Italy, December 27, 1985. Italian security officials survey the scene in the aftermath of the ANO attack on the El Al ticket counter in the terminal of Fiumicino Airport; 12 victims died.

- The attack on the Neve Shalom synagogue in Istanbul on September 6, 1986, killed 22 worshippers—20 Turks and two Israelis.

Table 1
Nationalities of ANO Victims, 1985-87 *

Country/Nationality	Wounded	Dead
Algeria	0	1
Argentina	1	0
Australia	2	0
Austria	3	1
Canada	0	2
Egypt	4	12
Greece	11	15
India	0	14
Iran	2	0
Israel	3	4
Italy	21	2
Jordan	2	1
Kuwait	90	8
Mexico	0	4
Nigeria	3	0
Pakistan	2	3
Palestinian	3	11
Philippines	3	11
Spain	25	1
Turkey	6	20
United Kingdom	34	0
United States	50	8
West Germany	2	0

* Data are incomplete. At least 188 more were killed or wounded, but their nationalities are unreported.

The Man, the Organization, the Operating Principles

The organization is most commonly referred to as Abu Nidal from the *nom de guerre* of its leader Sabri al-Banna, who created it from elements that broke away from Yasir 'Arafat's Fatah organization in the 1970s. The ANO is committed to the destruction of the state of Israel and the use of violence to abort any political or diplomatic efforts that might reconcile Israel and the Arab states. The ANO considers any who choose negotiation to be traitors and directs terrorist attacks against PLO officials, including 'Arafat, when they move in that direction.

Sabri al-Banna (Abu Nidal)



Sabri al-Banna was sentenced to death in absentia by the Fatah command in 1974 for planning the murder of 'Arafat and other PLO officials, including Abu Iyad. ANO terrorists have attacked PLO officials or offices in London, Kuwait, Paris, Islamabad, Brussels, Rome, Lisbon, Athens, Ankara, and Belgrade, killing at least 11 leading Fatah members.

Al-Banna has publicly threatened Western and moderate Arab nations with terrorism and assassination for what he sees as their part in preventing a Palestinian homeland. The ANO has called for the destruction of moderate, or in its terms, "reactionary" Arab governments. Jordan, Kuwait, the United Arab Emirates (UAE), and Egypt have been prominent on the ANO's target list, and each has suffered a number of attacks on its officials, airliners, and other interests throughout the Middle East and Europe. The ANO has also attacked US and British targets, striking civilian targets such as airlines and hotels, as well as diplomats—including the British Deputy High Commissioner in Bombay, whom they murdered in 1984. Abu Nidal staged a series of attacks against Jordanian targets in 1984-85 when Jordan's King Hussein joined PLO Chairman 'Arafat in efforts to revive Middle East peace negotiations. The ANO publicly condemned Romania in November 1996 for hosting a meeting between the PLO and members of an Israeli peace group. In June 1987 Hungary served as the venue for a similar meeting, and the ANO reiterated its threats.



Valletta, Malta, November 24, 1985. Egyptian commandos search among the surviving passengers of Egyptair Flight 648 for the hijackers. The incident claimed 56 victims

Sabri al-Banna formed his organization in 1974, largely in response to 'Arafat's professed ban on PLO participation in terrorist attacks outside Israel and the occupied territories. Al-Banna—who was the PLO representative in Baghdad at the time—disagreed, arguing that any operation that advances the Palestinian cause is justifiable and any location is acceptable. These radical views found favor with the Iraqi regime. Al-Banna's close ties to Iraqi intelligence proved beneficial—Baghdad provided al-Banna with a base for his operations and helped him create his organization, officially called Fatah-Revolutionary Council. By choosing this name, al-Banna broadcast his claim that his organization, rather than the one led by 'Arafat, was the legitimate Fatah. He has similarly created an organizational structure with titles that mirror 'Arafat's Fatah.

Although most noted for his international terrorist network, al-Banna wants to supplant 'Arafat's organization as the main focus of allegiance for the Palestinian people. In recent months, the ANO has renewed its attention to intra-Palestinian politics. Although Sabri al-Banna remains under death sentence by 'Arafat's Fatah, the ANO joined preliminary sessions of the Palestine National Council in Algiers in April 1987. ANO has begun building a militia within the refugee camps in Lebanon. These efforts are in addition to—not a substitute for—al-Banna's basic strategy of using violence and terrorism to bring down Israel and punish any who support or negotiate with its government.

الطريق



Cover page of Al-Tariq, ANO's internal, policy magazine. The magazine is disseminated on a highly restricted basis, and members may not retain copies.

ANO members suspected of committing security infractions; collecting targeting and casing information for potential operations; and conducting terrorist operations.

The Political Department is the overt arm of the ANO. It performs liaison and propaganda functions. This department publishes *Filastin al-Thawra*, the ANO's glossy international news weekly, which contains items of interest to Palestinians. It is distributed to ANO members around the world, often clandestinely, because it is banned in many Arab and other countries. The Political Department also produces *Al-Tariq*, an internal, typewritten document reportedly written by Sabri al-Banna. *Al-Tariq* contains policy recommendations, future plans, ideological discussions, internal criticism, and personnel matters. It is tightly held, and members who are allowed to read it may not retain it. In recent months, the Political Department may have achieved increased prominence because the ANO has begun emphasizing its political agenda as a part of its maneuvers within the Palestinian movement, particularly in the wake of the Palestine National Council meeting in Algiers.

The Lebanon Affairs Department is responsible for ANO activities in Lebanon and relations with the various organizations and movements in Lebanon. It oversees the five military districts into which the ANO divides responsibility for Lebanon. It was formed in early 1986 because of the growing importance of Lebanon, particularly the south, as a base of operations. The department also assumed responsibility for all ANO military activities in Lebanon from the former Military Department, which was relegated to an office after an internal ANO political squabble. The prominence of ANO armed units in the camps war in Lebanon has undoubtedly raised the importance of the Lebanon Affairs Department within the overall organization.

Training and Operations

Despite increased attention to Palestinian politics and to military affairs in Lebanon, the ANO's primary tool against Israel and within the Palestinian movement remains its terrorist apparatus. ANO terrorist operatives are carefully screened and trained. The ANO does not require large military training camps, although operatives have received paramilitary-style training at camps in Lebanon and Syria. Some of these camps are controlled by other organizations, such as the Popular Front for the Liberation of Palestine-General Command (PFLP-GC), which use the camps to train Palestinian militias for urban guerrilla warfare. Many of the weapons and techniques are equally applicable to terrorist operations. ANO operatives at such camps have been trained in the use of small arms, grenades, and other weaponry for terrorist operations. Before Syria closed ANO offices in Damascus, the organization used the PFLP-GC camp at Ayn Sahab, north of Damascus, to train its operatives. The current status of ANO activities that have been located in the Bekaa Valley and elsewhere in Lebanon is unclear.

An important component of ANO training is political indoctrination, with heavy stress on loyalty and obedience to the organization. It is clearly understood that "defectors" will be killed; each ANO member signs a statement upon entry into the



Istanbul, Turkey, September 6, 1986. The interior of Neve Shalom synagogue attacked by two ANO gunmen; 22 victims died.

The ANO's move to Syria coincided with a dramatic increase in its terrorist attacks. Between 1983 and 1986, the ANO struck at US, British, pro-Arafat Palestinian, moderate Arab, Turkish, and Israeli targets. Between late 1983 and late 1985, the ANO conducted 16 attacks against Jordanian targets including Jordanian diplomats, as part of a Syrian campaign to disrupt Jordanian initiatives in the Middle East peace process. The attacks against the Jordanians ceased following a Jordanian-Syrian rapprochement.

The current major ANO supporter in the Middle East is Libya. ANO's relationship with Libya has intensified since about 1985. The Libyan press reports that Sabri al-Banna met with senior officials in Libya at

least three times in 1985. Libya provides training assistance, safehaven, and financial support to the ANO. Tripoli gives the ANO close support for selected operations as well. In September 1985, an ANO operative was arrested in London after he was seen collecting four handgrenades in a bag from a Libyan contact. Libya is believed to have been involved in the bloody ANO hijacking of Egyptair Flight 648 in November 1985, and Tripoli provided the passports to ANO members who attacked the El Al counter at the Vienna airport in December that same year. Many ANO personnel expelled from Syria appear to be relocating to Libya.

activities, but also can be used for operational support. With such a network in place, the clandestine ANO terrorist operatives have access to a readymade mechanism to move and hide funds; to buy, ship, and cache weapons; to arrange meetings; and to serve as accommodation addresses. ANO company personnel are thus available to perform a wide range of terrorist support functions worldwide under commercial cover if called on to do so.

The ANO commercial network comprises several businesses created over the past seven years with the long-term goal of establishing legitimate trading enterprises in various countries, gaining experience in commercial trade, and making a profit for the group. Such profits permit the organization some freedom of operation—beyond the control of its state benefactors. Most of the companies deal in a variety of manufactured goods that are sold primarily to Arab countries, but a key segment of the network deals extensively in the international arms market, with assistance from gray-arms dealers and certain Warsaw Pact countries.

The general manager of the commercial network and the principal agent in gray-arms transactions is Samir Hasan Najm al-Din (Samir Najmeddin). He has directed many of ANO's commercial activities, both licit and illicit, from his offices in the INTRACO building in Warsaw, Poland. He brokered arms sales on behalf of Warsaw Pact and Middle Eastern governments even before the ANO companies were established, and commissions from such deals have been a continuing source of income for the ANO. Najm al-Din established a permanent residence in Warsaw at 3 Ulica Bagno, apartment 24, in 1983 or earlier.

The managers of the group's several companies report to the Board of Directors, which includes ANO leader Sabri al-Banna; his de facto deputy for commercial matters, Samir Najm al-Din; financial manager Shakir Farhan; and a fourth official named Kamal Hasan Khalil. Organizationally, the Board of Directors falls under the purview of the ANO's Finance and Economic Department. In reality, the commercial network is run by Najm al-Din, who reports directly to Sabri al-Banna.

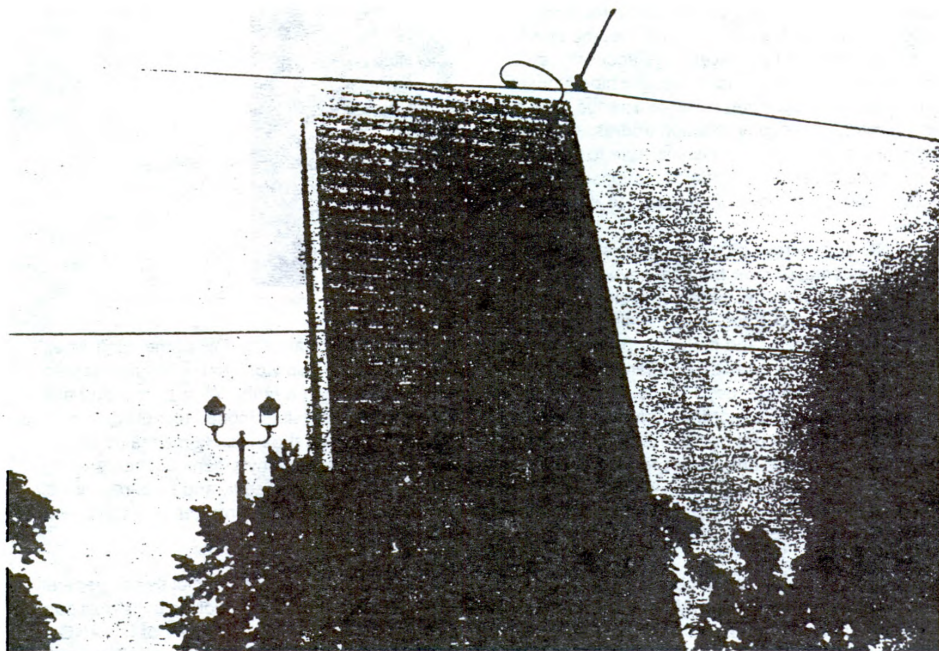


Samir Hasan Najm al-Din

Najm al-Din has maintained all of the companies' records at his Warsaw office. He has maintained a general account at a major West European bank from which he transfers money to individual company accounts at local banks. He maintains joint control of each company's bank accounts along with the company manager, and he is responsible for forwarding all major contracts to Sabri al-Banna for final approval.

Members of the ANO commercial sector generally do not interact with those involved in its political and terrorist operations. The managers of the ANO companies are primarily businessmen. This facilitates interaction with potential clients and provides plausible denial to businessmen or governments that are aware that the companies are controlled by ANO but would be embarrassed should their involvement with these enterprises become public.

Although ANO businessmen are not members of the terrorist wing of the organization, the group's leadership considers them integral members of the ANO, and they must undergo the same stringent screening process as do terrorist operatives. They regularly receive issues of ANO publications, including the news magazine *Filastin al-Thawa* and the internal policy document *Al-Tariq*. They attend meetings hosted by senior ANO officials, in which they are briefed on current issues of interest and are reminded of their contribution to the ANO cause.



The SAS company has maintained its headquarters on the 25th floor of the INTRACO building at Stawki 2, in the Nowe Miasto section of Warsaw.

manager of SAS, the most profitable ANO company, and he has maintained offices in the INTRACO building. SAS has been represented in Warsaw by the Polish firm Maciej Czarnecki and Co., whose director is Jerzy Dziubinski.

- Zibado Foreign Trade and Consultants
International Trade Center
1086 Friedrichstrasse, P.O. Box 99 1HZ
German Democratic Republic-Berlin
Telephones: 206-2951, 206-2952, and 206-1627
Telex: 112009 ZIBAD DD

Zibado's headquarters were established in the Soviet sector of Berlin ("East Berlin") in 1983. The "East Berlin" office had three employees—the manager, an East German named Hans Hoffmann, and

an East German secretary. It was managed by Kamal Hasan Khalil before it closed in late 1986. Zibado company officials dealt directly with Guenther Haussman, managing director for exports in IMES. IMES is an East German Government foreign trade organization active in the arms trade. Zibado claimed to be able to deliver a wide range of goods, including entire industrial plants, building machines and materials, research laboratories, pianos, livestock, and frozen seafood. In 1983, the Zibado company established a branch in Damascus, located on the fifth floor of the Nahas building, on Abu Sa'id Street, and managed by Abdullah Salah (Abu Hisham). The Damascus branch has served as an office for ANO Financial Director Shakir Farhan.

Western Europe for operations. Depending on the nature of their arrangements with the ANO, the East European governments obtain hard currency, access to embargoed weapons, and/or guarantees against ANO terrorist activities on their soil.

A salient feature of the commercial network has been its intricate relationship with Poland and East Germany. ANO commercial organizations in Warsaw (SAS Foreign Trade and Investment) and in "East Berlin" (Zibado) have been staffed not only by ANO commercial representatives, but also by Polish and East German nationals who act as brokers between government export companies and foreign buyers. They have dealt heavily but not exclusively in arms trading in the Middle East and Africa. The SAS company in Warsaw has served as the hub of much of this activity.

SAS has worked closely with the official Polish arms exporter CENZIN to broker arms transfers for the Polish Government. Andrzej Marchewka has been the chief Polish contact for SAS commercial activities. He has functioned as a representative of both CENZIN and SAS and has negotiated a number of weapons deals for SAS with Middle Eastern governments. He is believed to be a Polish intelligence official, and the ease with which he has expedited visas and customs clearance for ANO travelers to Warsaw certainly suggests close ties to Polish security officials. Najm al-Din pays Marchewka \$600 per month—\$500 goes to the Polish Government and \$100 to Marchewka.

The ANO has maintained a close commercial relationship with East German foreign trade organizations in three areas: manufactured goods, weapons, and embargoed technology. Unlike SAS, which has been the ANO's focal point for all business deals in Poland, Zibado was responsible only for trade in manufactured goods, and it dealt directly with East German manufacturing firms. Najm al-Din personally handles the weapons and technology transactions. For these, he has dealt directly with IMES, a state-run foreign trade organization primarily responsible for the sale of weapons and other military equipment. East German officials have also turned to the

ANO commercial network for assistance in establishing contacts in several African and Middle Eastern markets the East Germans have not otherwise been able to penetrate.

In Warsaw and "East Berlin," the local employees and the export firms ANO has dealt with have extensive ties to responsible party, government, and commercial officials. These employees and local export firms also have ties to high-level intelligence offices, which have facilitated ANO travel and dealings with state bureaucracies.

Polish and East German connections help the ANO in other areas as well. After his expulsion from Iraq in 1983, Sabri al-Banna went to Poland. He may have resided in Poland from late 1983 until early 1985, and he continued to maintain a residence in Warsaw afterward. The ANO holds general business meetings in Warsaw; Sabri al-Banna presided over two such meetings in 1983 and 1984. In December 1983, meetings were held at the Solec Hotel and at the Novotel Hotel near Warsaw's airport. In September 1984 the meetings again were held at the Novotel Hotel. In June 1987, several officials from ANO companies in Europe traveled to Warsaw, evidently for consultations with Najm al-Din.

The ANO's ties to Poland date to at least 1979. Sabri al-Banna and the Polish Government entered an agreement whereby the ANO pledged not to undertake terrorist activities on Polish soil or against Polish interests in return for freedom to conduct ANO propaganda activities in Poland and for scholarships for ANO members. A senior official of the Polish Ministry of Education met the first group of ANO students at the Warsaw airport. The ANO has continued sending students to Poland each year and has maintained a liaison officer in Warsaw, Najah 'Abd al-'Afu Muhammad 'Adas—himself a former student there—to oversee the scholarship program.

The East German Government reached a similar arrangement with Sabri al-Banna in early 1983. Again, the reciprocal agreement involved a pledge by ANO not to undertake operations in East Germany or against East German interests abroad in return



Alkastronic office in Vienna, Austria, March 1987

deals that work to the advantage of Warsaw Pact and Middle Eastern states, as well as to the ANO itself:

- In 1986 Najm al-Din assisted East Germany in obtaining 115 Enfield antiriot weapons from the United Kingdom by designating an African country on the end user certificate. The shipment was diverted to East Germany once it reached Rotterdam. The East German Government purchased 100 of the weapons and the remainder were retained by the ANO.

- In 1984 Najm al-Din handled a contract worth \$500,000 under which East Germany sent more than 4,000 Kalashnikov assault rifles to Libya. The rifles were shipped via Poland in order to conceal East German involvement in the transaction.
- In 1985, Najm al-Din observed a live fire demonstration of weapons that the East Germans hoped to market. One was a shortened East German-made Kalashnikov assault rifle that could be equipped with a silencer. The other was a 9-mm Finnish Jatimatic submachinegun that the East Germans recommended for "street fighting." Both would be useful additions to any terrorist's arsenal.

The East German Government also looks to the ANO gray-arms network to help provide weapons for other terrorist groups supported by "East Berlin." In early 1984, the East German Government trading company IMES approached Najm al-Din to handle arms sales on its behalf and provide weapons for the two radical Palestinian groups, the Popular Front for the Liberation of Palestine-General Command (PFLP-GC) and the Democratic Front for the Liberation of Palestine (DFLP).

Through ties to the official Polish company CENZIN and arms dealings on behalf of other Palestinian groups, the ANO gray-arms network intersects with that of Munzir Qassar. Like the ANO, Qassar procures weapons for terrorist groups, falsifies end user certificates, and provides support that obscures the trail back to the Warsaw Pact suppliers (see inset on the Qassars).

Munzir Qassar, a notorious arms and narcotics trafficker, has extensive commercial links to the Polish Government, which provides him with office space, special services, and staff. Qassar is recognized in Warsaw as one of the primary arms brokers for the Polish Government, although he also services other Warsaw Pact governments. Qassar brokers millions of dollars in arms sales and arranges shipping and financing between Warsaw Pact states and various Middle Eastern clients, including terrorist groups.

Munzir Qassar works directly with SAS, the ANO company in Warsaw:

- Documents found in Qassar's Alkastronic office in Vienna in 1985 recorded the sale of ammunition and pistols—some equipped with silencers—to SAS in Warsaw.
- Qassar and ANO commercial director Najm al-Sin have worked together in brokering arms deals.

Outlook

Recent ANO attacks have been increasingly violent. The Pan Am Flight 73 hijacking, the massacre at the Neve Shalom synagogue in Istanbul, and the Rome and Vienna airport attacks suggest that future ANO attacks may also cause high numbers of casualties among people with no connection to the Middle Eastern conflict. Past actions and current trends suggest that the ANO is likely to conduct more terrorist attacks. The ANO continues to espouse violence as the only effective way to achieve a Palestinian homeland in present-day Israel. The ANO's attacks in 1986 continued a trend toward

operations designed to cause a maximum number of casualties with no concern for the innocence of the victims.

The ANO frequently launches attacks aimed at freeing imprisoned members (see table 3 on pages 20 and 21). Al-Banna publicly threatened the United States with retaliation if it extradites to Israel a Palestinian who claims to belong to Fatah; he was arrested in New York in May 1987 on murder charges filed by Israel. In 1986 an ANO political spokesman warned, "Some of our people are imprisoned in Europe. We are going to liberate them before long; that we can guarantee."

The ANO has demonstrated its willingness to follow through on its threats. For example, since March 1984, it has conducted a series of bombings and assassinations against British targets in an unsuccessful attempt to force the release of members imprisoned there. The ANO has also sought to intimidate other governments that hold ANO prisoners by conducting attacks against third-party targets on their soil. Such intimidation may precede or follow ANO attempts to negotiate deals with those holding its members.

Table 3 (continued)

Country/Total in Custody	Name	Date of Incident	Sentence (in years)	Remarks
Kuwait—1	Mustafa Mahmud Mustafa Sa'id Biyari	July 11, 1985	Death	Arrested for the bombings of two cafes in Kuwait City.
Malta—1	Muhammad Ali Abd al-Rizq	November 23, 1985	...	Arrested for participation in Egyptian hijacking in Valletta.
Pakistan—5	Wahdud Muhammad	September 5, 1986	...	Arrested for attempted hijacking of Pan Am Flight 73 in Karachi.
	Hafiz al-Turk		...	
	Zayd Hasan Abd al-La- tif Musud al-Safarini		...	
	Muhammad Abdullah Khalil Hussain al-Rahayyal		...	
	Jamal Sa'id Abd al-Rahim		...	
	Muhammad Ahmad al-Munawar		...	
Spain—2	Sa'id Ali Salman and an accomplice	March 3, 1980	24	Jailed for the murder of Spanish attor- ney Adolfo Coteló Villareal in Madrid.
United Kingdom—4	Husayn Ghassan Sa'id Murwan al-Banna	June 3, 1982	30	Jailed for the attempted murder of Israeli Ambassador Argov in London.
	Nawaf Nagib Mislh Rusan		30 35	
	Rasmi Awad	September 22, 1985	25	Arrested for conspiring to cause ex- plosions in London.
United States—1	Mahmud al-Abid Ah- mad (aka Mahmud Mahmud Ata)	April 12, 1986	...	Arrested on provisional arrest war- rant, pending extradition to Israel. He is wanted in connection with an at- tack on a passenger bus at Dayr Abu Michal junction. (Claims to be mem- ber of Fatah.)

Appendix A

Chronology of Significant Abu Nidal Organization Terrorist Activities, 1974-86

1974

November 22

United Arab Emirates (UAE): Four terrorists, armed with machineguns, handgrenades, and pistols, hijack British Airways plane en route from Dubayy to Tunis . . . two people wounded during takeover . . . plane took off with approximately 46 hostages, refueled in Tripoli, Libya, and went on to Tunis . . . one passenger killed on ground; hostages later released.

Late 1974

Location unknown; probably Lebanon: Murder planned by Sabri al-Banna against Yasir 'Arafat, Salah Khalaf (Abu Iyad), and other prominent Palestinian leaders uncovered by Fatah intelligence . . . al-Banna sentenced to death in absentia in October.

1976

September 26

Syria: Four terrorists, armed with machineguns and grenades, take over Semiramis Hotel in Damascus, taking 90 hostages . . . Syrian troops storm hotel . . . one terrorist killed and three captured; four hostages killed and 34 wounded.

October 11

Pakistan: Grenade attack on Syrian Embassy and Syrian Ambassador's residence in Islamabad.

November 17

Jordan: Four Palestinians attack Intercontinental Hotel with handguns and grenades, killing two employees and taking hostages . . . Jordanian troops counterattack, killing three terrorists and wounding one . . . two soldiers, one hotel guest killed; four hotel guests wounded.

December 2

Syria: Syrian Foreign Minister 'Abd al-Halim Khaddam seriously wounded in assassination attempt in Damascus.

1977

October

UAE: Assassination attempt against Syrian Foreign Minister Khaddam in Abu Dhabi results in death of UAE Minister of State.

1978

January 4

United Kingdom: PLO representative killed in London.

February 15

Cyprus: Two gunmen attack Afro-Asian People's Solidarity Organization meeting in Nicosia and kill the organization's secretary general, Yusuf as-Siba'i, a confidant of Anwar El-Sadat . . . leave country on aircraft with 11 hostages but refused permission to land in Libya, Kuwait, Somalia, Ethiopia, and the People's Democratic Republic of Yemen (South Yemen) . . . subsequently return to Larnaca Airport . . . Egyptian counterterrorism force assaults aircraft . . . resulting firefight kills 15 and wounds 16.

June 15

Kuwait: PLO official murdered in Kuwait.

August 3

France: Two gunmen attack PLO office in Paris and kill PLO representative to France.

August 26

India: UAE Consul General in Bombay escapes injury in assassination attempt.

September 16

Pakistan: Attempted assassination of Kuwaiti Consul General in Karachi.

September 18

Spain: First secretary of Kuwaiti Embassy assassinated in Madrid; driver wounded.

October 9

Italy: Grenade and machinegun attack against synagogue in Rome kills a child and wounds 10 persons.

December 8

Greece: Kuwait Airways offices bombed in Athens; no casualties.

1983**April 10**

Portugal: Issam Sartawi, prominent PLO moderate and close friend of 'Arafat's, killed in Lisbon.

August 20

Greece: Murder of aide to high-ranking Fatah official Khalil al-Wazir.

September 23

UAE: Gulf Air Boeing 737 en route from Karachi, Pakistan, to Abu Dhabi, crashes, killing all 111 passengers and crew . . . crash may have been caused by bomb aboard aircraft.

October 25

India: Jordanian Ambassador wounded in assassination attempt in New Delhi.

October 26

Italy: Jordanian Ambassador and driver wounded in assassination attempt in Rome.

October 31

Jordan: Car bomb detonated outside main Jordanian Army officers' club in Az Zarqa; no casualties reported.

November 7

Greece: Two security guards of Jordanian Embassy in Athens attacked; one killed, one wounded.

November 12

Jordan: Discovery of car bomb in residential area in Amman.

December 19

Turkey: Car bomb discovered midway between French cultural center and U.S. officers' club in Izmir.

December 20

Turkey: Car bomb injures one person and causes extensive damage to apartment building near PLO office and living quarters in Ankara.

December 29

Spain: Two Jordanian Embassy employees attacked in Madrid; one killed, one wounded.

1984**February 8**

France: UAE Ambassador to France assassinated in Paris.

March 24

Jordan: Bomb defused outside British Consulate in Amman.

March 24

Jordan: Bomb defused outside British cultural center in Amman.

March 24

Jordan: Bomb explodes in parking lot of Intercontinental Hotel, across street from US Embassy, damaging two vehicles and slightly injuring two persons; second bomb discovered and defused.

March 28

Greece: British Embassy first secretary assassinated in Athens.

July 24

Turkey: First secretary at Jordanian Embassy assassinated in Ankara.

August 8

Greece: Bomb explodes in kitchen of London Hotel in Athens, wounding 13 tourists.

August 24

Turkey: Bomb discovered in PLO office in Ankara.

August 30

Greece: Palestinian arrested in Athens for plotting assassination of Jordanian Ambassador.

September 3

Greece: Two grenades thrown at swimming pool at Glyfada Hotel in Athens . . . 19 British tourists wounded.

September 16

Italy: Grenades thrown at Cafe de Paris in Rome, injuring 38 tourists.

September 18

Greece: Palestinian magazine publisher murdered in Athens.

September 22

United Kingdom: British authorities arrest an ANC member found in possession of four handgrenades and charge him with conspiracy to cause explosions and to endanger life . . . grenades provided by Libyan contact . . . target identity unknown.

September 25

Italy: Bomb explodes at British Airways office in Rome, killing one and injuring 14.

November 23

Malta: Three gunmen seize Egyptair Boeing 737 en route from Athens to Cairo and force it to land in Valletta, Malta . . . when hijackers' demand for refueling refused, they begin shooting selected passengers . . . ultimately, 56 passengers and two terrorists killed; 23 passengers and one terrorist wounded . . . on November 24, Egyptian military commando unit storms plane.

November 24

Jordan: Husayn al-Bitar murdered in Amman as a result of financial dispute over his house, which was allegedly owned by Sabri al-Banna.

December 27

Austria: Three gunmen attack El Al counter at Vienna's Schwechat Airport with grenades and AK-47s, killing two and wounding 39 . . . one terrorist also died and two were wounded.

December 27

Italy: Four gunmen attack El Al ticket counter at Rome's Fiumicino Airport with grenades and AK-47s, killing 12 and wounding 72 . . . three terrorists also died, and one was injured.

1986**September 5**

Pakistan: Four men armed with automatic weapons, handguns, and grenades storm Pan Am Boeing 747 in Karachi, killing 21 and injuring over 100 others.

September 6

Turkey: Two gunmen attack Neve Shalom synagogue in Istanbul with grenades and machine-guns . . . 22 killed and six wounded.

LIST OF PAYMENT GUARANTEES UNDER THE CSM-102 PROGRAM: BCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
FY85

U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	COLOMBIA	BANCO DE CREDITO Y COMERCIO DE COLOMBIA	\$615,754.00	J. H. RODRIGUEZ AND CO..
			\$1,701,946.00	RIENCO GRAIN, A.C.
	JAMAICA	BANK OF JAMAICA	\$1,773,094.00	RIENCO GRAIN, A.C.
			\$148,358.00	BREMBEST, LTD.
FIRST AMERICAN BANK OF GE	GUATEMALA	CONSTRUCCION	\$259,700.00	PASTERMAK BAUM INTERNATIO
			\$132,300.00	PASTERMAK BAUM INTERNATIO
			\$500,000.00	UNIVERSAL LEAF TOBACCO CO
			\$55,860.00	ALLIANCE GRAIN, INC.
		BANCO DE LA OCCIDENTE	\$719,854.00	CARGILL AMERICAS, INC.
			\$744,800.00	PASTERMAK BAUM INTERNATIO
			\$184,938.00	ALLIANCE GRAIN, INC.
			\$27,040.00	PASTERMAK BAUM INTERNATIO
		BANCO CRAN. & TOWNSON SA	\$18,040.00	ALLIANCE GRAIN, INC.
			\$100,952.00	CONTINENTAL GRAIN CO.
			\$72,108.00	CONTINENTAL GRAIN CO.
			\$100,952.00	CONTINENTAL GRAIN CO.
		BANCO INDUS-TRIAL, SA	\$660,667.00	OVERSEAS GRAIN CORPORATIO
			\$774,690.00	ALLIANCE GRAIN, INC.
			\$259,931.00	ALLIANCE GRAIN, INC.
			\$255,329.00	ALLIANCE GRAIN, INC.
HONDURAS		BANCO INTERNACIONAL TRABAJADORES	\$689,920.00	ALLIANCE GRAIN, INC.
			\$298,352.00	ALLIANCE GRAIN, INC.
			\$699,720.00	ALLIANCE GRAIN, INC.
			\$271,748.00	ALLIANCE GRAIN, INC.
		BANCO DE OCCIDENTE	\$71,001.00	ALLIANCE GRAIN, INC.
			\$1,489,600.00	PASTERMAK BAUM INTERNATIO
			\$862,400.00	PASTERMAK BAUM INTERNATIO
			\$65,101.00	PILCH, INC.
		BANCO DE LOS	\$352,800.00	PASTERMAK BAUM INTERNATIO
			\$217,560.00	PASTERMAK BAUM INTERNATIO
			\$282,240.00	PASTERMAK BAUM INTERNATIO
			\$490,000.00	PASTERMAK, BAUM AND CO..
	\$83,300.00	R.C. YOUNG SEED AND GRAIN		
	\$998,268.00	SCHOUTEN INTERNATIONAL, I		
	\$51,450.00	WISCONSIN LIVESTOCK EXCHA		
			\$15,803,288.00	

LIST OF PAYMENT GUARANTEES UNDER THE GSM-102 PROGRAM: DCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
10/01/91

U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	COLOMBIA	BANCO DE CREDITO Y COMERCIO DE COLOMBIA	\$221,019.00	CONTINENTAL GRAIN CO.
			\$29,039.00	CONTINENTAL GRAIN CO.
			\$246,646.00	OVERSEAS GRAIN CORPORATIO
			\$732,360.00	SIEGEL CHEMICAL EXPORT CO
	GUATEMALA	BANCO CAMADERO	\$183,393.00	PASTERMAT, BAUM AND CO.,
		BANCO DE EXPORT-	\$20,513.00	PASTERMAT, BAUM AND CO.,
		BANCO DEL ALERO	\$183,393.00	PASTERMAT, BAUM AND CO.,
			\$113,413.00	PASTERMAT, BAUM AND CO.,
			\$11,774.00	PASTERMAT, BAUM AND CO.,
		BANCO DEL CAFE, S.A.	\$11,774.00	PASTERMAT, BAUM AND CO.,
			\$1,599,832.00	STEDEL CHEMICAL EXPORT CO
	JAMAICA	BANCO GRANA: S	\$569,332.00	KLUMB LUMBER COMPANY
		BANK OF JAMAICA	\$51,580.00	L. OPPENHEIMER & CO., INC
			\$1,159,292.00	MAPLE LEAF MILLS, INC.
			\$1,099,667.00	MAPLE LEAF MILLS, INC.
			\$1,165,517.00	MAPLE LEAF MILLS, INC.
			\$970,348.00	MAPLE LEAF MILLS, INC.
			\$1,143,041.00	MARUBENI AMERICA CORP.
			\$291,949.00	PASTERMAT, BAUM AND CO.,
			\$238,875.00	PASTERMAT, BAUM AND CO.,
			\$420,483.00	THE MCINNIS LUMBER CO.,
FIRST AMERICAN BANK OF GE	COLOMBIA	BANCO DEL ESTADO	\$135,274.00	CONTINENTAL GRAIN CO.
	HONDURAS	BANCO DE OCLIBENTE	\$104,027.00	OVERSEAS GRAIN CORPORATIO
			\$35,787.00	ACROPOL INTERNATIONAL COR
			\$88,200.00	PETUSPEC EXPORT COMPANY
			\$37,200.00	S. C. YOUNG, SEED AND GRAIN
			\$37,200.00	SCHUYTEN INTERNATIONAL, I
			\$37,200.00	SCHUYTEN INTERNATIONAL, I
			\$562,624.00	SCHUYTEN INTERNATIONAL, I
		BANCO LA CAPITALIZA- DORA HONDURENA SA	\$12,933,337.00	

END OF REPORT

LIST OF PAYMENT GUARANTEES UNDER THE GSM-102 PROGRAM: BCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
FY87

U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	COLUMBIA	BANCO DE CREDITO Y COMERCIO DE COLOMBIA	922,682.00	CONTINENTAL GRAIN CO.
			932,389.00	CONTINENTAL GRAIN CO.
			912,160.00	CONTINENTAL GRAIN CO.
			919,050.00	BAKER COMMODITIES, INC.
			999,600.00	BAKER COMMODITIES, INC.
			999,600.00	BAKER COMMODITIES, INC.
			999,600.00	BAKER COMMODITIES, INC.
			999,600.00	BAKER COMMODITIES, INC.
			999,600.00	BAKER COMMODITIES, INC.
			999,600.00	BAKER COMMODITIES, INC.
			999,600.00	BAKER COMMODITIES, INC.
			999,600.00	BAKER COMMODITIES, INC.
			999,600.00	BAKER COMMODITIES, INC.
			999,600.00	BAKER COMMODITIES, INC.
FIRST AMERICAN BANK OF GE	HONDURAS	BANCA DE EL AHORRO HONDURENO S.A. BANCO DE OCCIDENTE BANCO LA CAPITALIZA- DORA HONDURENA SA	912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
THE SHINHAN BANK	KOREA, REP	HANIL BANK, LTD.	912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
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			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
FIRST AMERICAN BANK OF GE	HONDURAS	BANCA DE EL AHORRO HONDURENO S.A. BANCO DE OCCIDENTE BANCO LA CAPITALIZA- DORA HONDURENA SA	912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
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			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
END OF REPORT			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
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			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY
			912,431.00	DARLING-BELAVARE COMPANY

LIST OF PAYMENT GUARANTEES UNDER THE CDR-102 PROGRAM: DCCL,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK 10/01/91

U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
FIRST AMERICAN BANK OF GE	HONDURAS	BANCO DE OCCIDENTE	\$423,709.00	SCHOUTEN INTERNATIONAL, I
			\$13,828,163.00	

END OF REPORT

LIST OF PAYMENT GUARANTEES UNDER THE CSR-102 PROGRAM: BCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
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U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	JAMAICA	BANK OF JAMAICA	\$733,307.00	B. TERFLOTH & CO. (USA),
			\$1,320,795.00	BALFOUR MACLAINE INTERNAT
			\$695,501.00	CARGILL AMERICAS, INC
			\$1,813,360.00	CARGILL AMERICAS, INC
			\$582,982.00	CENTRAL NATIONAL-COTTESHA
			\$537,534.00	CENTRAL NATIONAL-COTTESHA
			\$1,702,856.00	CENTRAL NATIONAL-COTTESHA
			\$1,353,453.00	CONFIDENTIAL GRAIN CO.
			\$278,374.00	CONFIDENTIAL GRAIN CO.
			\$588,949.00	CULF SOUTH FOREST PRODUCT
			\$664,078.00	CULF SOUTH FOREST PRODUCT
			\$789,700.00	INCOTRASE, INC.
			\$720,869.00	KLUMB LUMBER COMPANY
			\$375,537.00	KLUMB LUMBER COMPANY
			\$523,107.00	KLUMB LUMBER COMPANY
			\$564,783.00	KLUMB LUMBER COMPANY
			\$726,593.00	KLUMB LUMBER COMPANY
			\$833,993.00	LOUISIANA PACIFIC CORP.
			\$610,880.00	LOUISIANA PACIFIC CORP.
			\$552,303.00	LOUISIANA PACIFIC CORP.
			\$492,852.00	LOUISIANA PACIFIC CORP.
			\$746,681.00	PEAVEY COMPANY
			\$1,526,213.00	THE PILLSBURY COMPANY
			\$226,134.00	THE PILLSBURY COMPANY
			\$4,026.00	HY-LINE INTERNATIONAL
			\$78,029.00	WATERMANS, INC.
			\$123,352.00	PASTERNAK, BAUM AND CO.,
			\$10,387.00	PASTERNAK, BAUM AND CO.,
			\$123,086.00	ARJOR ACRES FARM, INC.
			\$115,430.00	CARGILL AMERICAS, INC.
			\$1,369,040.00	CARGILL AMERICAS, INC.
			\$1,315,460.00	CARMAC GRAIN CO., INC.
			\$60,502.00	PASTERNAK, BAUM AND CO.,
			\$45,531.00	ARJOR ACRES FARM, INC.
			\$55,911.00	PASTERNAK, BAUM AND CO.,
			\$191,172.00	PASTERNAK, BAUM AND CO.,
			\$50,552.00	PASTERNAK, BAUM AND CO.,
			\$802,722.00	PASTERNAK, BAUM AND CO.,
			\$11,128.00	WALLACE INTERNATIONAL
			\$11,133.00	WALLACE INTERNATIONAL
			\$713,090.00	CARGILL AMERICAS, INC
			\$53,416.00	CVI FARMS, INC.
			\$22,076.00	DEKOR POULTRY RESEARCH,
			\$1,282,150.00	SCORPUS INTERNATIONAL, I
			\$803,994.00	ETC NORTH AMERICA, INC.
FIRST AMERICAN BANK OF GE	EL SALVADO	BANCO AGRICOLA CO-		
FIRST AMERICAN BANK OF GE	EL SALVADO	BANCO AGRICOLA CO-		
FIRST AMERICAN INTERNATIO	EL SALVADO	BANCO CAPITALIZADOR		
		BANCO CUSCATLAN		
		BANCO DE CREDITO		
		POPULAR		
		BANCO DE DESARROLLO		
		E. INVERSION SA		
		BANCO DE FOMENTO		
		AGROPECUARIO		
		BANCO HIPOTECARIO		
		DE EL SALVADOR		
		BANCO SALVADORENO		
		BANCO DE LOS		
		TRABAJADORES		
		HONDURAS		
		BANCO LA CAPITALIZA-		
		DORA HONDUREMA SA		

LIST OF PAYMENT GUARANTEES UNDER THE CSH-102 PROGRAM: BECI,
 FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
 ASSIGNEE BANK
 FY88
 10/01/91

U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
			427,138,273.00	

END OF REPORT

LIST OF PAYMENT GUARANTEES UNDER THE GSM-102 PROGRAM: BCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
FY89

U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	JAMAICA	BANK OF JAMAICA	\$28,238.00	A. CUSMER, INC.
			\$43,670.00	A. CUSMER, INC.
			\$48,722.00	A. CUSMER, INC.
			\$247,400.00	A. B. BRAMMOCK, LTD.
			\$28,103.00	ADM MILLING CO.
			\$250,099.00	ADM MILLING CO.
			\$36,785.00	ADM MILLING CO.
			\$232,404.00	ADM MILLING CO.
			\$1,284,586.00	B. TERFLOTH & CO. (USA).
			\$997,999.00	B. TERFLOTH & CO. (USA).
			\$48,269.00	B. TERFLOTH & CO. (USA).
			\$1,549,340.00	B. TERFLOTH & CO. (USA).
			\$24,778.00	B. TERFLOTH & CO. (USA).
			\$72,587.00	B. TERFLOTH & CO. (USA).
			\$40,104.00	B. TERFLOTH & CO. (USA).
			\$20,512.00	B. TERFLOTH & CO. (USA).
			\$1,591,351.00	B. TERFLOTH & CO. (USA).
			\$1,128,600.00	B. TERFLOTH & CO. (USA).
			\$27,598.00	B. TERFLOTH & CO. (USA).
			\$27,417.00	B. TERFLOTH & CO. (USA).
			\$106,997.00	CANADA PACIFIC (U.S.A.)
			\$1,556,819.00	CARGILL AMERICAS, INC.
			\$1,566,604.00	CARGILL AMERICAS, INC.
			\$1,592,799.00	CARGILL AMERICAS, INC.
			\$587,878.00	CARGILL AMERICAS, INC.
			\$1,551,781.00	CARGILL AMERICAS, INC.
			\$1,514,482.00	CARGILL AMERICAS, INC.
			\$1,479,733.00	CARGILL AMERICAS, INC.
			\$1,077,230.00	CARGILL AMERICAS, INC.
			\$1,635,811.00	CARGILL AMERICAS, INC.
			\$465,595.00	CARGILL AMERICAS, INC.
			\$993,798.00	CARGILL RICE, INC.
			\$141,896.00	CARGILL, INCORPORATED
			\$297,312.00	CARGILL, INCORPORATED
			\$25,710.00	CARGILL, INTERNATIONAL
			\$62,485.00	CENTRAL INTERNATIONAL
			\$90,195.00	CHAMPION EXPORT, INC.
			\$57,278.00	CHAMPION EXPORT, INC.
			\$147,333.00	CHAMPION EXPORT, INC.
			\$203,619.00	CHAMPION EXPORT, INC.
			\$180,120.00	CHAMPION EXPORT, INC.
			\$226,084.00	CHAMPION EXPORT, INC.
			\$820,454.00	CONTINENTAL GRAIN CO.
			\$317,114.00	GEORGIA-PACIFIC CORP.
			\$1,212,750.00	GULF SOUTH FOREST PRODUCT
			\$212,116.00	GULF SOUTH FOREST PRODUCT
			\$238,545.00	GULF SOUTH FOREST PRODUCT
			\$1,383,613.00	GULF SOUTH FOREST PRODUCT

LIST OF PAYMENT GUARANTEES UNDER THE GSM-102 PROGRAM: DCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
FY89

U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	JAMAICA	BANK OF JAMAICA	\$2,829,750.00	GULF SOUTH FOREST PRODUCT
			\$744,925.00	INCOTRAGE INC.
			\$261,412.00	INCOTRAGE INC.
			\$493,508.00	KLUMB LUMBER COMPANY
			\$198,352.00	KLUMB LUMBER COMPANY
			\$25,856.00	L. OPPENHEIMER & CO., INC.
			\$62,398.00	L. OPPENHEIMER & CO., INC.
			\$1,588,972.00	LOUIS BREYFUS CORPORATION
			\$779,937.00	LOUIS BREYFUS CORPORATION
			\$506,687.00	LOUIS BREYFUS CORPORATION
			\$562,608.00	LOUIS BREYFUS CORPORATION
			\$710,954.00	LOUIS BREYFUS CORPORATION
			\$1,187,794.00	LOUIS BREYFUS CORPORATION
			\$29,132.00	LOUIS BREYFUS CORPORATION
			\$426,387.00	LOUIS BREYFUS CORPORATION
			\$42,780.00	LOUIS BREYFUS CORPORATION
			\$42,780.00	LOUIS BREYFUS CORPORATION
			\$15,056.00	LOUIS BREYFUS CORPORATION
			\$436,570.00	LOUISIANA PACIFIC CORP.
			\$234,455.00	LOUISIANA PACIFIC CORP.
			\$210,210.00	LOUISIANA PACIFIC CORP.
			\$3,650,351.00	M.E. FRANKS, INC.
			\$722,549.00	MAPLE LEAF MILLS, INC.
			\$1,352,189.00	MAPLE LEAF MILLS, INC.
			\$1,299,906.00	MAPLE LEAF MILLS, INC.
			\$1,524,731.00	MAPLE LEAF MILLS, INC.
			\$596,585.00	MAPLE LEAF MILLS, INC.
			\$179,751.00	MISSOURI AMERICAN CORP.
			\$1,182,277.00	P.S. INTERNATIONAL, LTD.
			\$1,546,132.00	P.S. INTERNATIONAL, LTD.
			\$337,637.00	PASTERNAK, BAUM AND CO.,
			\$178,850.00	PASTERNAK, BAUM AND CO.,
			\$184,200.00	PASTERNAK, BAUM AND CO.,
			\$27,925.00	PASTERNAK, BAUM AND CO.,
			\$27,452.00	PASTERNAK, BAUM AND CO.,
			\$26,452.00	PASTERNAK, BAUM AND CO.,
			\$586,530.00	PASTERNAK, BAUM AND CO.,
			\$73,790.00	PASTERNAK, BAUM AND CO.,
			\$616,912.00	SEAVEY COMPANY
			\$14,140.00	THE PILLSBURY COMPANY
			\$316,504.00	THE PILLSBURY COMPANY
			\$96,640.00	THE PILLSBURY COMPANY
			\$187,772.00	TRANSCO TRADING (USA) INC
			\$62,303.00	TRANSCO TRADING (USA) INC
			\$225,575.00	TRANSCO TRADING (USA) INC
			\$390,024.00	TRANSCO TRADING (USA) INC
			\$73,196.00	TRANSCO TRADING (USA) INC
			\$1,193,330.00	U.S. TRADING CORPORATION
			\$68,293.00	U.S. TRADING CORPORATION
			\$217,893.00	U.S. TRADING CORPORATION

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LIST OF PAYMENT GUARANTEES UNDER THE GSH-102 PROGRAM: BCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
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U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
FIRST AMERICAN INTERNATIONAL	EL SALVADOR	BANCO AGRICOLA CO-	166,358.00	ALLIANCE GRAIN, INC.
			954,952.00	ALLIANCE GRAIN, INC.
			954,952.00	ALLIANCE GRAIN, INC.
			918,329.00	INDIAN RIVER INTERNATIONAL
			972,275.00	INDIAN RIVER INTERNATIONAL
		BANCO DE COMERCIO DE EL SALVADOR	157,497.00	GERSONY-STAUBS CO., INC.
		BANCO DE DESARROLLO E. INVERSION SA	144,044.00	GERSONY-STAUBS CO., INC.
			985,266.00	ARBOR ACRES FARM, INC.
			959,814.00	ARBOR ACRES FARM, INC.
			943,365.00	ARBOR ACRES FARM, INC.
		BANCO HIPOTECARIO DE EL SALVADOR	9115,640.00	GERSONY-STAUBS CO., INC.
			8492,586.00	GERSONY-STAUBS CO., INC.
		BANCO SALVAJORENO	8998,596.00	PASTERNAK, DAUM AND CO.,
			8998,196.00	CARNAC GRAIN CO., INC.
			8240,947.00	GERSONY-STAUBS CO., INC.
			82,299,749.00	GERSONY-STAUBS CO., INC.

END OF REPORT

LIST OF PAYMENT GUARANTEES UNDER THE DSM-102 PROGRAM: BCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
FY91

U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
FIRST AMERICAN INTERNATIONAL	EL SALVADOR	BANCO AGRICOLA CO-	174,988.00	ALLIANCE GRAIN, INC.
			9367,333.00	ALLIANCE GRAIN, INC.
			320,648.00	AVIAN TECHNOLOGY INTERNAT
			970,638.00	PERSONY-STAUSS CO., INC.
			9308,628.00	PERSONY-STAUSS CO., INC.
			9403,605.00	PERSONY-STAUSS CO., INC.
			9823,178.00	CARCILL AMERICAS, INC.
			9359,852.00	PERSONY-STAUSS CO., INC.
			944,010.00	PERSONY-STAUSS CO., INC.
			9627,200.00	PERSONY-STAUSS CO., INC.
			9300,860.00	PERSONY-STAUSS CO., INC.
			9426,315.00	ALLIANCE GRAIN, INC.
			9220,206.00	ALLIANCE GRAIN, INC.
			9124,245.00	PERSONY-STAUSS CO., INC.
			91,190,365.00	CARCILL AMERICAS, INC.
			96,149,930.00	

END OF REPORT

Gentlemen, if we could do the closed session, hopefully, really as soon as possible, and I'd just ask your cooperation in helping us to do that, that would be very good.

Thank you all.

[Whereupon, at 12:05 p.m., the committee adjourned, to reconvene at 9:05 a.m., November 21, 1991.]

HEARING ON NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

THURSDAY, NOVEMBER 21, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:05 a.m., in room SH-216, Hart Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Brown, and Wofford.

Senator KERRY. The hearing on the Subcommittee on Terrorism, Narcotics and International Operations will come to order. Would you stand and raise your right hand. Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God.

Mr. MAZUR. I do.

Senator KERRY. Good morning. This is the 11th hearing the subcommittee has held in the BCCI scandal in recent months. The first hearing on BCCI this year was held in the Subcommittee on Consumer and Regulatory Affairs of the Banking Committee. And the Justice Department testified at that hearing.

Since that testimony, there has been a significant amount of public discussion regarding the events and revelations about the Bank of Credit and Commerce International. Most notably, the bank has been seized or closed in a majority of locations where it operated around the world. And also there has been evidence produced about the bank's ties to various intelligence agencies, including the CIA, which used it as a passthrough to various drug smugglers, drug dealers, terrorists, and arms dealers.

There have also been indictments now and civil money penalty fines imposed on the bank. And I think it is fair to say that at this point in time, the knowledge of BCCI is growing substantially. And the facts are becoming much clearer.

The New York district attorney's office indicted key officers of the bank in July. The Federal Reserve simultaneously announced a \$200 million civil suit. And in September, the Federal Reserve levied fines against Mr. Ghaith Pharaon and other BCCI front men. The Justice Department has recently announced indictments of key BCCI officers, in September. And most recently, a civil suit that names Ghaith Pharaon.

So, where one year ago most Americans did not know very much about BCCI, now a lot of Americans know that something bad hap-

pened, though not everybody can put their finger on exactly what that was.

This committee thinks it is important to remind people that while an individual depositor in the United States did not lose money yet—and I emphasize yet because they may still—the fact is that BCCI engaged, systematically, in criminal activity around the world, buying banks illegally while laundering money, while simultaneously cultivating relationships with the best and the brightest of political and economic figures in every country in which it operated. It is that dual activity of BCCI that is interesting. And the combination of its vast web of organized crime with its seeking of political influence that combined to create this scandal in so many countries.

People sometimes say so, it was a criminal bank and it bought the largest bank in Washington. So what is the impact to all of us? Well, I think that that is part of what we are going to examine here today. And we are going to hear from an agent on the front lines who can describe why that is important, and how this relates to everyday life in the streets of America.

What we cannot turn away from is the fact that you have a drug-corrupted criminal enterprise. Organized crime, if you will, white-collar organized crime that infiltrated our country in a secret process, bought up legitimate businesses, as organized crime does, did deals with some of our most distinguished citizens almost as if it had a license to do crime. And after 10 years it was caught. But the ultimate exposure of BCCI's secret ties, and its networks—some of which we are still learning about—came about not so much because of a specific targeting or a specific heeding of some of the indicators, but came about partly as a coincidence, and partly because of one individual, or two individuals rather extraordinary efforts.

Today we are going to hear from one of those individuals. A person who opened up the BCCI window, if you will, and who started this investigation, and who as much as any other individual, I think, is responsible for helping to uncover the culture of criminality that I refer to. I have never met DEA agent Robert Mazur until a brief encounter yesterday, but I have heard a lot about him. I have had a chance to read some of the things that he has written and said about this case. I am not sure about all of what he will say here before us today.

DEA agent Mazur, and others, risked their lives on a number of different occasions in order to uncover corrupt practices, money launderers, and to bring drug dealers to justice. I think there is not a person sitting in the U.S. Senate or in Congress who has not praised the efforts of those who were in Iraq and in the desert in Desert Storm. That was a short war, folks.

This has been a long, difficult, tedious war—the war on drugs. And the fact is that agent Bob Mazur is one of a number of individuals who have been fighting a rather extraordinary war here at home. One has only to witness the headlines about Mexican police agents shot by, apparently, Mexican troops with purpose and intent, in the last days, to understand the dangers that people go through. Apparently evidence that two of those individuals were

shot in the back, and one had powder burns on his face with a frontal shot directly through his mouth and head.

Those are real dangers that our agents face on a daily basis in this country. And for two decades agent Bob Mazur has been fighting this war on drugs, and I think has done so with a commitment that has been unequalled and unsurpassed by many. Now while our Government rightly gave soldiers abroad every means of support—the best technology, the best communications equipment, the best general—I regret that I cannot say that we have done the same for those men and women who are fighting the war on drugs.

And I think we should never lose sight of the fact that BCCI at its core was nothing more than a drug money launderer, a drug facilitator. And for the cartel, for General Noriega, and for too many others around the world, it was the way for them to reap their profits.

District attorney Bob Morgenthau of New York says that he puts some 35,000 or 25,000 drug abusers in jail every year. But to him, BCCI was vastly more important. In the critical battle in the war on drugs, Bob Mazur did not have a lot of fancy technology. He had a tape recorder. He did not have an army at his disposal. He was alone, or with one or two other agents. At times he did not even have someone to transcribe the tape conversations that he had made. He did not have assistants to go through boxes and boxes of documents that needed to be read.

But he made an important case. A case, however, smaller than the case that I think he wanted to make, and that is regrettable. After he and others successfully brought down the major drug kingpins in BCCI, there was obviously no parade. There was no great pat on the back from the United States. There really was not public recognition. But the fact is that I think it was as significant an accomplishment as we have seen in law enforcement in recent times.

I am delighted that he is able to be here today. I regret that there has been a delay in being able to make him available, but that is behind us now and we are here to listen to his testimony and to understand how this process evolved. And it is my hope, truly, that we can constructively learn, and I emphasize constructively, how we can do better at this. What we need to do to be able to guarantee that whatever errors were in fact made, if there were some, that they are not going to be repeated.

We will hear from the Justice Department and welcome their testimony. Yesterday I had expected to be able to speak on the Barr nomination, but frankly it was moving so rapidly that for those who were not on the floor for about 10 minutes, that was not possible. What I would have said had I spoken then, was simply that we have a new Attorney General, and I believe that new Attorney General has already made efforts in the last days to try to guarantee that we have a smooth process. And I respect that and I appreciate that.

And it is my judgment that the Justice Department is serious about this, that they want to make the case that is available to them. This is not, today, an effort to try to create some kind of contentious finger-pointing session. While automatically, there will be some judgments made that at some point in time some of us dis-

agreed with some judgments that were made earlier, hopefully that too is in the past, and hopefully this case will now be brought to a successful fruition in every respect.

It is in fact known that I was critical of the plea at the time that the plea took place. I do not walk away from that. That is the way I felt. It was my judgment at the time. But I think that, again, what is important is to try to build a foundation from which all of us can do better jobs and have a better understanding of how we proceed forward.

I would also like to say that I think Mr. Jackowski and Mr. Kehoe, who are the prosecuting attorney and the attorney who negotiated the plea and who are Justice Departments representatives, worked long and hard and often equally thankless hours in this effort under very difficult conditions. And I do not support the idea that either of them did not want to do everything possible to go after BCCI. I think that is ridiculous. But I do think it is obvious that the 6-month trial of BCCI required significant preparation and work by them without respite. And a lot of people do not understand how tough that can be on personal life, family life, and so forth.

But legitimate questions, nevertheless, remain about the overall allocation of resources and the overall judgments that were made regarding this case. And it is a matter of record that some of us have also been critical about that. One of the difficulties in this case is that it is hard for us in Congress to make some judgments and to have oversight when an investigation is ongoing. And I acknowledge that.

But I think both our bodies, our institutions, need to work out a process whereby we can do better at the communication process between institutions of Government, so that both of our interests are served. The interest of the public to know that all is being done on issues that they want to have things done, and the need of the executive to be able to guard and preserve certain kinds of information which obviously are important to them.

That being said, Mr. Mazur, let me welcome you here today. And let me make a quick explanation of what we have going on here. The reason we have this screen, and the reason the public was restrained from being present until you were seated and sworn in, and you have been sworn in, is really to protect you. And the committee obviously is not interested in putting you in any position of jeopardy. And we respect the balance here between our need to know and the clear need to guarantee that you are not placed in any kind of jeopardy as a consequence of appearing here today. I take it you are satisfied that this screen, and this process adequately do provide you with whatever security and protection that you do need. Is that a fair statement?

Mr. MAZUR. Yes Senator, I appreciate it.

Senator KERRY. Thank you. Well, we appreciate your being here, and I apologize—we are just going to check on the voice here. It is necessary to have a voice modulation here which will somewhat alter the voice of the witness, so that that also is protected. We are just going to make sure that that is occurring.

The reason for this is not to hide you from people because we do not want them to know who you are, it is really to protect your

capacity to perform your responsibilities for the DEA and for the country. And we clearly do not want to put you in a position of jeopardy with respect to that.

We are going to take a recess for a minute until we are sure the voice box is set up appropriately. We will just stand in recess for a few minutes.

[A brief recess was taken.]

Senator KERRY. The hearing will come back to order. My apologies for the delay but obviously we wanted to be sure that the voice modulation is in fact working correctly, and now it is.

I am joined by my ranking minority member, Senator Hank Brown. Senator, do you have any opening statement you wish to make?

Senator BROWN. No thank you, Mr. Chairman.

Senator KERRY. At this point, Mr. Mazur, do you have an opening statement you wish to make?

Mr. MAZUR. No, sir.

Senator KERRY. Well, let me begin, Mr. Mazur, by sort of drawing you through this event and story a little bit, if I can. Let me go back and start at the beginning. Give us a little sense of your background and who you are and how you come to be here today.

TESTIMONY OF SPECIAL AGENT ROBERT MAZUR, UNDERCOVER AGENT FOR OPERATION C-CHASE, DRUG ENFORCEMENT ADMINISTRATION; ACCOMPANIED BY KATHLEEN P. MAHON

Mr. MAZUR. Yes, sir. I began my career as a special agent with the Internal Revenue Service Criminal Investigation Division in 1972, worked for that agency for a number of years, 11 years, at which time I transferred to Customs as a special agent and in this past year, June 1991, resigned from Customs and assumed a position as an agent with the Drug Enforcement Administration.

Senator KERRY. So you have had almost 20 years experience as a law enforcement officer?

Mr. MAZUR. Yes, Senator, and at least 12 years of which has been focused solely on drug money laundering cases.

Senator KERRY. Where have you been principally stationed with respect to the money laundering and drug cases?

Mr. MAZUR. Initially, in Manhattan and subsequently in Tampa, up until the time that I left Customs.

Senator KERRY. Share with us, if you will, your background in money laundering operations themselves, or investigations.

Mr. MAZUR. I have held just about every type of position in a case. I've been a case agent responsible for coordinating international drug money laundering cases. I functioned as an undercover operative in long-term undercover operations like that in the BCCI case.

Senator KERRY. And did you participate in a case called Operation Greenback?

Mr. MAZUR. Yes, sir, I was one of the agents assigned to Greenback and operated in Tampa primarily.

Senator KERRY. What year was that?

Mr. MAZUR. During the early 1980's.

Senator KERRY. Now, at some point in time, did you write a memorandum to create a proposal, if you will, for something called Operation C-Chase?

Mr. MAZUR. Yes, sir, I did.

Senator KERRY. Would you describe how you came to write that and what this was all about?

Mr. MAZUR. Yes, sir. I actually wrote the document in the summer of 1986. But prior to writing to it, there was a substantial amount of work that went into what I would term the setup of the operation. That is, I spent about 2 years, 2½ years establishing identities and companies that were ultimately used in the undercover operation.

But when the opportunity through an informant arose that this operational plan could be implemented, then that prior work that was used to set up the undercover front was incorporated into a written plan and implemented with the assistance of the informant.

The informant had come forward in May 1986, but the anticipated use of that style of undercover operation had been discussed between myself and my superiors for a number of years prior to that. The use of an undercover operation that would offer services to the Colombian cartels for the laundering of drug proceeds and thereby infiltrating the drug and money laundering world and using that association, then become capable of having relationships with other money laundering organizations and gathering intelligence and evidence that would lead to future prosecutions after a number of years of the undercover operations operation.

Senator KERRY. This was the outgrowth, then, of a generalized view within Customs that it was important to try to get into the banking structures and the money laundering mechanisms themselves?

Mr. MAZUR. Yes, certainly within the money laundering structures. Whether it would take us to an institution or a business or an individual that was servicing the cartels, it was certainly anticipated that we would, once accepted, have the opportunity to meet other individuals involved in that type of activity.

I would say the majority of the emphasis that led to creating the undercover operation should be credited probably to one of the prior assistant special agents in charge in Tampa, who is now assigned to Seoul, Korea, for whom I worked. His name is Paul O'Brien.

Senator KERRY. And he was suggesting this kind of approach in general terms? Is that what you are saying?

Mr. MAZUR. Yes, sir.

Senator KERRY. Now, draw for us a little bit, if you will, a picture. This is 1984 or 1985 when you first got the sense of thinking about this kind of approach.

Mr. MAZUR. Yes, sir, I would say it really began to be discussed in depth in 1984.

Senator KERRY. What was the picture at that point with respect to drugs and money laundering down in the Florida area?

Mr. MAZUR. The conditions we had experienced in the 8 years or so prior to that clearly showed that there was a massive amount of currency being generated from the sales of drugs in the United

States that were serviced on behalf of the cartels by professional money launderers, who did nothing but handle funds for a number of drug organizations.

There had been some prior undercover operations that had been undertaken by various agencies to try to deal with this problem. I had participated in one prior long-term undercover operation where I assumed the identity of a member of a drug group. That led to a number of prosecutions.

But on the whole I would say there were literally dozens of major cases involving this massive flow of funds out of the United States from the large sales of cocaine in the United States.

Senator KERRY. When you say massive, what do you mean?

Mr. MAZUR. I guess I can best give you an example from the undercover operation we're speaking about here, C-Chase. One of the clients who ultimately came to use our services had gross receipts within the United States during 1988 of roughly \$200 million per month in currency that needed to be removed from the United States on his behalf and placed in investments throughout the world.

Senator KERRY. And this money was being removed in what form? Actually shipped out in bulk as well as transferred through accounts or what?

Mr. MAZUR. Literally every conceivable method had been discovered as being used, from the simplest forms of depositing currency in banks, which either occurred in large sums due to relationships with individuals in the banks, or whether it be by what is commonly termed in the law enforcement community as smurfs, dozens of people who would be given several hundred dollars a day to go around the banks and deposits amounts under \$10,000 so that funds could get into the banking system.

And also the use of private aircraft, where tens of millions of dollars would be flown out of the country on one occasion to haven countries where the deposits could be hidden due to bank secrecy laws. And even the concealment of currency in commercial goods, such as cutting out the insides of air-conditioning units and filling them with cash and shipping them to different areas of the world, the Colon Free Zone in Panama, and other areas.

Senator KERRY. Is this kind of transaction still going on?

Mr. MAZUR. Unfortunately, yes.

Senator KERRY. In significant form?

Mr. MAZUR. Yes, sir.

Senator KERRY. You say \$200 million a month for one customer. You are absolutely confident of that sum of money?

Mr. MAZUR. Yes, sir. I personally met with underlings of that individual on a number of occasions in the United States, in Costa Rica, and in France, where we had lengthy discussions, all of which were recorded, concerning the gross receipts that were being handled by their boss.

Senator KERRY. And he was one of how many you were dealing with?

Mr. MAZUR. There were at least six or seven clients and probably more. To be completely accurate, I would need to go back to the case files. But in general, I would say somewhere in that area. There were six or seven very large clients.

Senator KERRY. So you submitted a memorandum in response to what was going on around you and to this need or desire that had been expressed to get inside. And that memorandum suggested something called Operation C-Chase. Is that accurate?

Mr. MAZUR. Yes, sir.

Senator KERRY. Could you describe what you set forth in that. What did C-Chase stand for, first of all?

Mr. MAZUR. In the Federal Government, at the time when these types of operations are created, it is common that a handle or a name of some sort is attached to it that it's commonly termed to. I had quite a bit of difficulty coming up with a catchy name that this could be called.

One of my colleagues took note of the fact that one of our undercover apartments was located at an apartment complex called Caliber Chase and happened to look down at a receipt and taking off everything after C in the first name and adopting the second, said, why don't we use C-Chase?

Senator KERRY. And that was the beginning?

Mr. MAZUR. Yes, sir.

Senator KERRY. Now you began to run all the aspects of that undercover operation, correct?

Mr. MAZUR. In concert with several other agents and with Mark Jackowski, who was the assistant U.S. attorney assigned to the operation right at its inception. In particular, there were four or five individuals who I think contributed equally in the case. Mr. Jackowski certainly was a major contributor.

Two of my undercover partners, one who assumed the identity of Emilio Dominguez, and another who assumed the identity of Kathleen Ericson, and an IRS agent who was an affiant in most of the search warrants, were probably the individuals who were most involved in the developments of the case, although there were other agents as well.

I can't stress enough that it was a true team effort.

Senator KERRY. I appreciate that and I am sure it was. According to a memo you wrote in June 1989, at that point in time I believe, you were running all aspects of the undercover operation.

Mr. MAZUR. With respect to the undercover operation, yes. The covert team——

Senator KERRY. As of April 1987, correct?

Mr. MAZUR. Yes, sir.

Senator KERRY. OK. And what was your particular undercover operation in C-Chase, you particularly? What was your occupation?

Mr. MAZUR. My role was that of a businessman who coordinated a number of investment companies and mortgage businesses which were used in the eyes of the defendants as a cover for the laundering of drug proceeds.

Senator KERRY. And you enhanced your capacity to play that role, I take it, through the use of confiscated assets?

Mr. MAZUR. In part, yes, sir.

Senator KERRY. Airplanes, cars, and other sorts of things?

Mr. MAZUR. Yes. There was a seized Cessna Citation II jet that was at times used in the undercover operation in conjunction with an air charter service that the defendants were led to believe I was an officer of.

I probably should also mention that there were a number of citizens who, because of their concerns of this problem, the massive drug problem that we face and the world faces, decided to allow me to assume a position within their businesses in an unwitting way amongst their employees. And I think those citizens involvement was a major contributor to the success of the case.

Senator KERRY. Now tell us how you set out to make this thing work. What happened? Give us a little unfolding, if you will, of the events that led you down the path here.

Mr. MAZUR. After the undercover front was established and ready to withstand scrutiny, the informant, who had been brought into the operation by another officer who worked with the informant in other cases, the informant made contact with his Colombian associates who were already involved in laundering of drug proceeds for the Medellin cartel. He informed them very slowly of our assistance to him in laundering funds here in the United States.

As we began to launder funds for that individual, we later were provided introductions to people in Medellin who were involved in the drug laundering trade, and through discussions with them, were able to learn more about the source of the funds. And other undercover agents in the United States participated as workers in the eyes of the defendants for this U.S.-based drug money laundering organization.

That is, the agents in various cities actually met with drug dealers in the streets of seven different cities and received from them literally boxes of currency at given times, which were turned over to the undercover operation for the services that were expected to be provided the laundering of the drug proceeds.

In the course of servicing the cartel in this money laundering operation, it became necessary to have accounts at various locations throughout the world. And in Tampa at the time, the only bank I was familiar with that had branches internationally was the Bank of Credit and Commerce International, which had a branch in Tampa.

In an effort to ultimately obtain a Panamanian account in February 1987, I went to the Tampa branch of BCCI and explaining my undercover front, simply that I was a businessman based in the Tampa area with a large number of Colombian clients for whom I transferred funds, I initially opened simply an account in Tampa and had some discussion with the officer about the possibility of needing foreign accounts in the future.

At that very first meeting in February 1987, I was the recipient of what appeared to me to be a rather well-polished pitch by the officer that he could assist and the bank could assist in the secret transfers of funds. That discussion in February 1987 was followed up in April 1987, where that same officer and I and another undercover agent and a money launderer from Colombia met in Tampa and had further discussions about the possible banking through BCCI.

Senator KERRY. Were you talking to any other banks at the time?

Mr. MAZUR. Yes, sir.

Senator KERRY. This was a pretty rampant kind of undertaking in that area, I gather.

Mr. MAZUR. I'm not sure I understand your question.

Senator KERRY. Well, were there not a lot of banks that were sort of known to be on that side of accepting cash and moving it around?

Mr. MAZUR. Yes, there were a number of banks whose history indicates that they are involved in what appears to be money laundering. When I went to BCCI, it wasn't because I had been armed with any particular information that BCCI was expected to be involved in that type of activity. It was initially, in February 1987, more of a convenience because of the location of the branch in Tampa and that being the home base of our undercover operation, that brought me to BCCI.

In June 1987, when it became necessary to open an account in Panama, I went back to the Tampa branch and found that that officer I had first spoken with had left the bank and another officer was now working with me. That officer did establish an account in Panama for me by simply having me fill out paperwork in Tampa in front of him, which he later sent by DHL to Panama.

Shortly thereafter, I had a functioning account in Panama and began to use the account in Panama.

Senator KERRY. Were you surprised by that?

Mr. MAZUR. Yes, I was.

Senator KERRY. I take it at that time your focus was more on the cartel and on the individuals than on the institutional entity.

Mr. MAZUR. I think that would be fair to say. In the beginning it was obvious it would be necessary to facilitate this relationship with the cartel members before it would be possible to take that association wherever it might take us to find other institutions or individuals that might be involved in money laundering.

Senator KERRY. From your experience in the area, if you had walked into the door of another bank, is it your suspicion you would have had just easy a time setting up an account and getting money down to one country or another?

Mr. MAZUR. On the whole I would say it would not be as easy. But I am afraid to say that there are a number of other banks that I think that same experience might have occurred in. I was very surprised at the intense interest that BCCI had in demonstrating to me the unique, what they felt, unique characteristics of their banking were and how it is that they could assist in the laundering of drug money.

Senator KERRY. Did you request at that time, once you had selected the bank and you had an open account there, did you do any runs to other agencies or anything to learn anything they might have on the bank?

Mr. MAZUR. Yes. After I first went to BCCI, as a matter of fact, on the afternoon of the meeting, with the Tampa officer in February 1987, I came back to the office and I met with an IRS agent. That IRS agent was the same agent who was in the search warrant and he and I discussed the experience that I had when I went there.

I explained that I found it rather peculiar that the bank was, had such a polished approach, marketing approach, to haven countries, their locations, everything fit with an institution that might have an ulterior motive for its locations. And we discussed the pos-

sibility that maybe the bank, certainly the individual, from what the individual had said, we suspected the individual to be involved in what we would term a client conspiracy, at a minimum. Whether it went into the bank or not was sheer suspicion at that stage. But it certainly was something that we thought could possibly evolve.

I asked him if he could check out, what, if anything, he could learn about BCCI, and it turned out that there was a prosecutor in Tampa in the organized crime unit that had a case involving a heroin trafficker and that, that case had promoted some information about the possible involvement of BCCI in the laundering of drug proceeds.

I was never told anything beyond that. But I was told of that case.

Senator KERRY. You never learned, then, from any other departments like the CIA or Treasury or anything like that, formally about other knowledge of the bank previously?

Mr. MAZUR. I did not receive any information from my superiors about information the CIA might have, or any other agency might have, beyond the information I received from the IRS agent at the outset.

There did come a time much after the conclusion of the coverup operation when information from the CIA was brought to my attention, but never during the undercover operation.

Senator KERRY. Was that after the indictments had been filed?

Mr. MAZUR. Yes, sir.

Senator KERRY. That was after the indictments?

Mr. MAZUR. Yes, I believe it was sometime in 1989.

Senator KERRY. Now to move the process along here. You then undertook, from what, 1986 through 1989?

Mr. MAZUR. Acting in an undercover capacity, sir?

Senator KERRY. Well, your request for this effort took place in 1986.

Mr. MAZUR. Yes, sir.

Senator KERRY. The approval was when?

Mr. MAZUR. Shortly after that.

Senator KERRY. You began it in 1986?

Mr. MAZUR. Yes, sir.

Senator KERRY. So 1986, 1987, 1988, you were working undercover?

Mr. MAZUR. Yes, sir.

Senator KERRY. And you were ingratiating yourself, doing the things normally that undercover agents do to be able to make a case.

Mr. MAZUR. Yes, I was having extensive contact with members of the bank and people involved in the Medellin cartel, recording their conversations.

Senator KERRY. And I take it at that point, you were the one who was fundamentally directing that undercover effort, is that correct?

Mr. MAZUR. I would say on a day-to-day basis as a team leader of the undercover group.

Senator KERRY. How many people were in the group?

Mr. MAZUR. The primary members are those I mentioned before. There were two other long-term undercover agents assigned to Tampa. There was another undercover agent in Tampa, who on a part-time basis participated.

Those were the primary undercover agents out of Tampa, although I also spoke regularly by phone to the undercover agents operating in New York, Los Angeles, Miami, and Chicago.

In the big picture, there certainly were regular meetings between the undercover operatives and the investigative team and the prosecution team, that provided us with general guidance that those day-to-day decisions that I prompted were made from.

Senator KERRY. Just to add a little, sort of, color to the kinds of things that you would confront in this. Would you describe to the committee an incident that occurred in 1986 in August, in a small apartment near Miami airport?

Mr. MAZUR. In Miami?

Senator KERRY. I think it was. Am I correct? You were secretly taping undercover conversations and did there come a moment when a Customs undercover and a Mr. Mora, surprised you in an apartment?

Mr. MAZUR. That was in Tampa, yes, sir. At that point in time, the need for my long-term role as somewhat the boss in the eyes of the defendant, that undercover role, wasn't necessary in the beginning stages.

For the first 6 months or so, other agents functioned in picking up currency from traffickers in the United States, but the occasion to meet the people behind the money laundering operation didn't come, so during that timeframe I assisted in directing the case behind the scenes.

On that occasion I received a phone call, it was a weekend, I think a Sunday, from my undercover, what became my undercover partner, that informed me that there was a meeting that was going to occur and that he needed some assistance to turn the recording equipment on, which at that time I was more familiar with than him.

I went to the apartment. The equipment was in the closet, the meeting was scheduled to last 45 minutes, so it was agreed that I would be inside a locked closet to turn the equipment on and off. And after the meeting was over, I would wait for his return and provide him with the tapes after authenticating them.

After the meeting was over, he did leave. I waited at the apartment for about 1 hour. He then returned unexpectedly with one of the defendants. I had to jump back into the closet and wait for the meeting to conclude. It was now getting close to midnight and unfortunately the meeting went on for quite a long time, and the defendant, unbeknownst to me while speaking in Spanish had insisted that he spend the night at the apartment.

I was therefore stranded in the apartment until he fell asleep, at which time I tried to leave the apartment. I went into the room the informant was located in, he was asleep and when he woke, wasn't quite sure who it was that was in his room. It took some time to quiet him down and thereafter I left through the apartment window and called my partner to discuss the little difficulty in coordinating that evening.

But yes, that did occur.

Senator KERRY. I am sure that that happened. It is an interesting vignette of the kinds of things that you go through. Not many people picture folks out there spending an inadvertent 5 or 6 hours in a closet, and then confronting their own agents in an effort to explain who they are and so forth, but it is interesting.

Returning to the sequence of events, who was Roberto Alcaino? Is that the correct pronunciation?

Mr. MAZUR. Roberto Alcaino was a distributor of cocaine and a money launderer who operated at a very intense level in the United States for over 10 years. He worked directly with Fabio and Fabito Ochoa out of Medellin, and Rodriguez Gacha.

Senator KERRY. Was he one of the main cash collectors in the United States?

Mr. MAZUR. He was, I wouldn't say a main cash collector, but certainly a significant amount of funds were returned to Colombia through him as a result of the sales of cocaine that he supervised in the United States. There were times when he was responsible for roughly, the distribution of roughly 2,000 kilos of cocaine per month in the United States. He lived in Pasadena, but operated worldwide.

I was introduced to him in April 1987 and began servicing him and his associates through money laundering services and eventually he came to trust me, and speak at length about the drug smuggling operation that he was a part of, so much so that I came to learn the location of the lab in Bolivia that the cocaine was produced in, how it was transported to Buenos Aires, how it was packed in commercial shipments of anchovies and, based on mere conversation, was able to notify our office in New York 24 hours after I was provided by Alcaino with details of one of these shipments.

Within 24 hours, based on the details he shared with me, they were able to find roughly 2,400 pounds of cocaine that they seized in September 1988.

Senator KERRY. Was that seizure part of something called Operation Pisces?

Mr. MAZUR. No, sir, that was directly a part of Operation C-Chase and—

Senator KERRY. Was Alcaino a target of Pisces?

Mr. MAZUR. I wasn't aware that he was a target of Pisces, but I was aware that he had been previously the target of what's termed an organized crime drug enforcement task force case that was, unfortunately, unsuccessful in prior years.

Senator KERRY. Well, did Operation Pisces—which is a separate undercover operation, correct?

Mr. MAZUR. Yes, sir.

Senator KERRY. And that was a separate undercover operation of what agency?

Mr. MAZUR. Drug Enforcement Administration.

Senator KERRY. Was there some way in which Operation Pisces collided with Operation C-Chase?

Mr. MAZUR. Not so much collided, but their events certainly had impact on us, in that, in May 1987, Operation Pisces, which had been operating for a number of years, concluded. The publicity

from the conclusion of Operation Pisces caused the people who I was associated with to have fears that I might be a Federal agent, for a short period of time.

That was about the first time after the initial introductions when their suspicions were heightened.

That problem was compounded the following month, in June, when the FBI's Operation Cash Whip concluded, a similar drug money laundering operation which happened to cause the arrests of a close friend of the main Colombian contact that I was working with. Within a month or so after the conclusion of those operations—

Senator KERRY. Was that Gonzales Mora?

Mr. MAZUR. Yes, sir.

Senator KERRY. So Gonzales Mora, whom you were sort of focused on in dealing with, was a target of Pisces?

Mr. MAZUR. His main associate, a gentleman by the name of Rastrepo, was a target of Cash Whip, which happened 1 month later. But all of those in Medellin who were heavily involved in the drug trade were generally touched or certainly quite concerned about the law enforcement efforts that were exposed in May and June 1987 and the possible similarities of what we were doing.

It took approximately 60 days or so to allay their fears and to get back to the point where we were.

Senator KERRY. Is there a legitimate question or issue about coordination in terms of what happens if one agency has a big operation going and some of the people overlap into another operation and you have got agents from another agency out there on the line, and then one operation goes down, and boom, there is a lot of publicity, and people get nervous and all of a sudden every—is that a problem that people ought to be thinking about in the coordination of this kind of effort?

Mr. MAZUR. Yes, I believe so. There certainly has to come a time when operations like this, or Pisces, or Cash Whip must conclude, but I think with a lot of discussion between the agencies beforehand. Some of the potential problems can be minimized. I know yesterday you mentioned that there might come a time when you would ask me what, if anything, I might think from my perspective could add to the coordination and whenever we get to that I have one suggestion.

Senator KERRY. You can go ahead. Why do you not do it now? I mean we can. I will have some more questions. I am going to turn to Senator Brown after this for a series and then I am going to come back. But why do you not use this moment, just to share that with us.

Mr. MAZUR. Yes sir. I think that the decision that was made in 1973 when the Drug Enforcement Administration was formed, was a sound one and that it is very necessary to have, as necessary as it is for this committee to have a chairman. It is equally as necessary in the law enforcement community for there to be a chairman. Not a person who has any more importance than another, but one who has a tremendous responsibility to see, that information doesn't fall between the cracks, that there is a coordination.

I have worked with the DEA for many, many years and I am not persuaded by the fact that I have just become a DEA agent in the

last couple of months, but I have come to see in 20 years, that there are a lot of things that have happened in cases and there are things that happened in C-Chase which, unfortunately, fall into the category of what people describe as the agency wars, which the people who suffer from, the public, the people we serve, are the ones, are the greatest losers.

Any time individuals are motivated by something other than to serve the people in these cases, if they are worried about an agency priority or a career priority, it's going to interfere in the interests of—

Senator KERRY. What you are really talking about is turf?

Mr. MAZUR. I am talking about turf battles, they do happen.

Senator KERRY. Turf battles happen.

Mr. MAZUR. They do happen a lot. Most recently I think that has been recognized by a number of agencies, but I think when it comes to drug law enforcement, it's very important for all the agencies that have important roles to be able to look to a chairman, and I wish someone would give some consideration to a vote of confidence to the Drug Enforcement Administration for that.

Senator KERRY. Let me just say to you, Mr. Mazur, I think your recommendation and your perception on that are acute and well taken and I could not agree with you more.

I was deeply opposed to the creation of a separate drug czar. I wanted a drug czar, but I wanted the drug czar to be the chief law enforcement officer of the United States of America, the Attorney General, and the notion that you are somehow going to bring somebody in, with all due respect to Governor Martinez of Florida, the notion that you are going to bring somebody in and you are going to deal with the turf battles between FBI, DEA, IRS, I mean there were 30 agencies, I believe, that have some contact with the drug process of this country, including the military now, and I think you have to have somebody who is first among equals, if you will. And in the protocol and hierarchy of the Cabinet, the Attorney General is one of the highest ranking Cabinet members, certainly above Human Services, above Education, though I am not saying they are above it in terms of the importance of issues, but in terms of capacity.

Moreover, it is fundamentally a law enforcement undertaking, and to have a nonlaw enforcement person somehow supposedly coordinating the most single, important law enforcement effort of this Nation is ridiculous, ridiculous, and either you ought to have the Vice President of the United States or the Attorney General, and that is what I argued. I was very much against it and I was one of the authors of the 1988 and 1986 bills and worked on the task force that did it, I opposed it then and I oppose it now. And I am paused to try to revamp that. I think we need, desperately, to have coordination among the agencies to avoid many more times these kind of problems.

The Attorney General of this country ought to do that job and then I think we would have a whole different effort, frankly. We will get into resources that are allocated or not allocated to it later, but let me turn to my colleague now.

Senator BROWN. Thank you, Mr. Chairman. I would like to go back and re-cover a little bit of the background we just went through.

First of all, in selection of the bank or banks that you contacted to set up accounts and to explore whether or not they were in money laundering, you mention that you did not select BCCI because of a plan or because of some background information, it was simply one of the banks in the area. Did you go to other banks?

Mr. MAZUR. Yes, sir. I made contact with a couple of other banks.

Senator BROWN. And the process you used was simply to open an account and talk with them about the services they offered.

Mr. MAZUR. Initially, and then through conversation about the nature of the transactions it became apparent, especially to those in BCCI, that the nature of the transactions related to drug activity.

My best example of that would be that when the account in Panama was opened in BCCI, the only reason that the bank then came back to try to have a broader relationship with me is that an operations officer in Panama who was one of the defendants in the Tampa case in reviewing the account activity recognized the nature of the transactions and called me, unsolicited, to inform me that he would be in the United States and that he felt that the bank, being a full-service bank, had the type of abilities to keep my transactions conducted in a very confidential way that would enhance the business I was involved in, and when I met with him in Miami it was obvious that he had determined the nature of the transactions just from looking at the activity in the checking account, which is something a person experienced in banking, and certainly in Panama, would be able to do, just from the nature of the checking account.

Senator BROWN. And the nature of the account was what?

Mr. MAZUR. There were large wire transfers that were sent from the United States to Panama into a checking account. The checks drawn on the accounts fell into a category that are generally seen in drug transactions, or the operation of a black money market in South and Central America.

The checks were drawn in the names of very common Spanish names, the equivalents of John Smith and John Doe here in the United States. The checks were—although signed in my undercover name, were typed, sometimes in two different types of typing, with the amounts of money in writing and in numbers would be in one style and yet the payee would be in another, and there was scotch tape put over the numbers that were written in, the number of the value of the check, on a regular basis by the money launderer who distributed them in Columbia, because in effect those checks are handled like currency.

If it is a \$25,000 check, they are passed through the hands of people in Central America and South America almost like currency, because the name is not put into the check until the person who ultimately intends to use it goes to endorse the check. Therefore, you have different types in the check, you have tape over it because people don't feel as though they can trust one another, that the numbers may be changed on the check, and the people

who would come to the bank to deposit or obtain bank checks in exchange for those checks are people who are commonly seen in handling accounts like this and to have a reputation for being involved in drug money laundering of some sort.

Senator BROWN. So the setup involved deposits being made in a U.S. bank, wire transfers to Panama, and checks drawn on Panama that were cashed in Columbia.

Mr. MAZUR. Initially it was, until BCCI offered a more sophisticated plan for the handling of the money.

Senator BROWN. Deposits in the United States, were they in cash exceeding the amount that was supposed to be reported?

Mr. MAZUR. Yes, and they were deposited to accounts at banks that had a knowing relationship with the Government because of the fear that the reports, or the lack of coordination with that bank, could result in compromising the operation.

They were fully aware that the accounts, although in names of companies, were controlled by the Federal Government, and these are banks that have had longstanding relationship with agencies in the United States and have assisted in these types of investigations.

Senator BROWN. Wouldn't using those accounts tip them off?

Mr. MAZUR. If only one bank were used on a repeated basis, I'm sure, but that is constantly changed around. It could be any bank.

Senator BROWN. So the setup did not involve big cash deposits in the Tampa branch of BCCI.

Mr. MAZUR. No, sir, it did not. There were offers by BCCI to accept cash, but it was their opinion at the time, because of the attention that BCCI was receiving primarily by this committee and because of Pisces and other operations, that in their assessment it was too dangerous to receive large cash deposits from us into their local branches, although I do know that they did that for other account holders. It was their recommendation that they receive that currency, money they knew to be drug proceeds, at either their Panama branch or their Luxembourg branch and several locations in the Middle East.

Senator BROWN. This was a recommendation BCCI came back to you with.

Mr. MAZUR. Yes, sir.

Senator BROWN. A proposal for the best way to launder money, in effect.

Mr. MAZUR. In part. If it was necessary to dispose of currency and we couldn't do it on our own, they would accept that cash in that form. The real sophistication that they suggested initially was advised to be by the banker in Panama, Mr. Sayed Aftab Hussain.

He explained that the wire transferring of funds directly from our company in the United States to the account in Panama that serviced the drug dealers was a very direct route, which if traced in the reverse would bring law enforcement authorities to us, and that type of activity by individuals in the past had resulted in the bank being given requests for records in the Pisces case.

He explained to me that some of the account holders who had problems from the Pisces case were involved with BCCI, that their problem arose from their use of the checking account in the fashion I had used it, and their alternative suggestion was that the

wire transfers be sent to a different part of the world, preferably Luxembourg, but in any number of locations they offered where they be placed in a certificate of deposit.

To then provide the money in Panama, they would create a loan in Panama which would have no apparent connection on paper to the deposit in the foreign branches where the moneys were actually placed, and therefore the loan proceeds would be used to put into the checking account and then disbursed out to the drug traffickers.

If anyone tried to trace the checks backward, they assured me that they would demonstrate that the moneys had come from a loan at the bank, and that they would never disclose the true existence of the certificate of deposit that was truly the collateral for that loan. They would give the impression that the loan—and I'm speaking in general now.

They would give the impression that the loan was based simply on the creditworthiness of the corporation that was given the loan, or they suggested that I provide them with property, real estate in the United States, regardless of how heavily mortgaged.

They would create an apparent additional mortgage on a several million dollar piece of property and put that in the file as the alleged collateral for the loan in Panama, and so again there would be a business purpose for the moneys that were disbursed and a deniability that could be offered to law enforcement if anyone tried to retrace the money back in.

It was also their recommendation that if I couldn't handle the cash myself, that they would accept cash in their foreign branches to facilitate this type of activity. The reason that it became difficult to deal with them in cash is that part of my cover was that of being a person who managed a large number of businesses, some of which—many of which were cash-generating, and this was the reason why we, as a money laundering group, were able to provide unique services to the Colombians, so it had to be slowly approached with BCCI to discuss these issues of cash deposit, because it would be somewhat illogical, based upon the cover that they were first aware of.

Senator BROWN. The service they provided, in effect, was as world-class consultants to organized crime.

Mr. MAZUR. I think it could be categorized by some as that. They definitely had a plan by which they felt these transactions could be secretly conducted, and which took into account the countermeasures that law enforcement normally used to try to unearth the source of the funds. They definitely were the architects of the plan.

Senator BROWN. They looked at your pattern of banking and sought you out to provide advice to you. It seems like a strange conversation. They don't call you up and ask you if you're a money launderer. How did that go?

Mr. MAZUR. The call that came in, I received in the Tampa area in November 1987, came in from Panama. The gentleman who called, Sayed Aftab Hussain, initially explained that there was an error on one of the checks. One of the checks had been issued for an amount of money represented in two different amounts—actually, one in writing and one in numbers—and they didn't jibe, and he

called me to advise him of which amount he should pay at the bank.

Of course, that portion of the money laundering service was provided by a Columbian money launderer who thought we were in fact money launderers, and I couldn't tell him which amount should be guaranteed because that bit of information was in the mind of the trafficker or money launderer in Columbia.

After we resolved it through a number of phone calls back and forth to Columbia, he used that as an opportunity to say that he was going to be in the United States and that he recognized these types of errors could be problematic, and that he had some suggestions for us that would help us to avoid these and other types of problems in the future.

The face-to-face meeting with this officer occurred in December 1987 in Miami and was recorded. The transcript is a part of the evidence in Tampa, and he cautiously got into the topic of their money laundering services, but within two meetings to three meetings at most, the nature of the transactions were blatantly discussed. The fact that the moneys were derived from the sales of drugs in the United States on behalf of very powerful drug lords in Columbia was something that ultimately became rather commonly discussed amongst the officers with whom I had contact in BCCI.

I think what occurred here with regard to our account was just one example that was precipitated by a policy in the bank on marketing. The bank on a regular basis encouraged its employees to review the transactions of customers to try to determine how it is that they could suggest additional banking with the customer.

A person such as myself, who is obviously servicing what they would call high net worth clients, Columbian drug lords, would have the potential of suggesting to his clients that they bank with BCCI, and so it would be very advantageous to them under their marketing plan to convince me of security of banking with them, and thereafter hope to encourage me to have my clients come forward and bank with them. That in fact did later happen.

Senator BROWN. What kind of revenue, special revenue, did they request? What was their cut?

Mr. MAZUR. They had variations, depending upon the relationship with the client. I tried not to appear too eager and bargained with them. Their proposal was between 2- and 2.5-percent differential, as it was called, between the interest earned on the certificate of deposit and the interest paid on the loan that would be servicing the moneys that went into the checking account. There were also other fees that at times would be charged.

In all, I think we handled roughly \$14 million through BCCI on behalf of clients. Their earnings from that amounted to \$250,000 in various banking fees, but that was not really their main purpose.

As they described it to me, although they enjoyed that profit, their main goal was to encourage me, as they did their other clients, to make large deposits with them every 6 months at the point at which the balance sheets of the bank were to be calculated, thereby causing their balance sheets to look very strong.

Even if it was only for a short period of only 24 hours, if the funds could be placed on deposit with them it would enhance their marketability in the international banking community and would

facilitate their doing other things. It was important to them, and many officers on several occasions encouraged me to not only place funds that I controlled, but the funds my clients controlled for very short periods of time during balance sheet time with BCCI.

Senator BROWN. It sounds like an effort to generate enormous growth very quickly and make themselves very marketable.

Mr. MAZUR. It sounds like it could be that, and they were certainly growing very fast, and told me that they had purposely done so over the last number of years, and were now going to try to focus their attention not on establishing more branches but perfecting the branches that they had at the time. They had over 400 branches, and they were in at least 70 or more countries. They were at the point of trying to then make those branches viable branches.

Senator BROWN. The people at BCCI you talked to, did they put you in connection with drug dealers, with others?

Mr. MAZUR. We began to get into the conversation of that in the summer of 1988, but did not get to the point of being introduced to people in the drug money laundering business. I was provided with the name of a person in Bogota with whom they dealt on a regular basis and suggested that I have some association with. They also indicated in the summer of 1988 that they were prepared to consider having me collect cash on behalf of a BCCI client, get it into accounts, and then to pass it to them as somewhat of a service.

Those things were somewhat derailed for two reasons. One, the main people with whom I was dealing at BCCI, Mr. Amjad Awan and Mr. Akbar Bilgrami, had their own plans of leaving the bank by November 1988, and aligned themselves with the financial institution based in London. They were going to be running a private bank in Miami on behalf of that institution. And so all of the people who were working toward a longer term relationship with BCCI, at least from them, was refocused over to this new company called Capcom Financial Services Limited in London.

The other officers with whom I dealt, primarily Mr. Nazir Chinoy, the general manager in Paris, did have other discussions about expanding relationship with BCCI. But then, the case was ended in October 1988, and that became a moot point.

Senator BROWN. The other cartel, or the other money laundering you were involved with, that connection came up through other activities that had nothing to do with BCCI?

Mr. MAZUR. It came up initially to me through another connection, but as I came to learn later, they already had an established relationship with BCCI and were laundering money with the assistance of an officer in Panama.

Senator BROWN. One other question. When you went to the various banks to open up accounts and you described the nature of your activities and so on, were the people at BCCI dramatically different from the way people responded in the other banks?

Mr. MAZUR. There was a small number of international banks that I had contact with, and the experience I had with BCCI, I have never experienced or heard anyone describe as a normal experience. It was very unusual. I was introduced through my initial—well, not my initial contact, but the Panama officer, two officers in Miami, who later introduced me to three officers in France and one

in London, and then also to one in Los Angeles, and one in the Bahamas, all of whom I had explicit conversation with about the source of the money being drug proceeds, and all of whom welcomed me with open arms.

Senator BROWN. Were these the presidents of the bank or a secondary level? How widespread do you think knowledge of drug trafficking was and what level of bank personnel do you think were in on this?

Mr. MAZUR. It appeared to me that the knowledge of the source of the funds and the method of seeking out drug proceeds as a source of deposits for the bank was something that was promoted at every level of senior management within the bank. The people with whom I dealt, the highest ranking officer I personally spoke with about these matters was Mr. Nazir Chinoy. He was in charge of all of the branches of BCCI in Europe and North Africa, and was one of the general managers.

I'm not absolutely sure, but I think there were approximately seven general managers for BCCI who were part of a committee. He was certainly a person who had very regular direct contact with the president of the bank, the vice president, and the entire committee, as he led me to believe he had shared the nature of my transactions with the then president of BCCI, Mr. Naqvi.

Senator BROWN. Did you not find it extraordinary that there would be so many people involved in the banking circle that would be aware of it? I mean, this apparently was not just a couple of guys at the top of the bank, but it was a large number of bank officers?

Mr. MAZUR. Yes, sir. It was. And I'm afraid to say that I've come to learn that in the international banking field this may not be as unusual as I'd first thought.

Senator BROWN. Thank you.

Senator KERRY. Thank you, Senator. Mr. Awan, who you just mentioned in answer to questions from Senator Brown, was one of the principal go-betweens in the Miami bank. Is that correct?

Mr. MAZUR. Yes, sir.

Senator KERRY. And he was really Noriega's banker in effect. Is that correct?

Mr. MAZUR. Yes, sir. He was.

Senator KERRY. Now, did the BCCI bank executives actually tell you ways that you could enhance the money laundering efforts you were making?

Mr. MAZUR. Yes, sir.

Senator KERRY. So they literally laid out to you ways that they could take more money and evidenced an anxious, as you have said, a clear desire to do so?

Mr. MAZUR. Yes, sir.

Senator KERRY. And at some time, you told Mr. Awan that you were planning a trip to Europe, did you not?

Mr. MAZUR. Yes, sir. I did.

Senator KERRY. And he offered to provide you with a list of BCCI contacts in Europe, specifically, in Switzerland and Luxembourg?

Mr. MAZUR. Yes. Some of whom he specifically told me would be people who would know the source of the funds and with whom I

could talk more freely, and one of whom he suggested I be much more closed with when I spoke about it.

Senator KERRY. This is 1988, correct?

Mr. MAZUR. Yes, sir. That—

Senator KERRY. Was it also in 1987 or not?

Mr. MAZUR. No. In the beginning of 1988, especially around the time that Panamanian authorities chose to freeze U.S. dollar accounts, and the need within the drug money laundering world to find other havens to supplement Panama arose. I'd engaged in conversation with Mr. Awan and these recommendations were a part of what he suggested I consider.

Senator KERRY. In 1988, then?

Mr. MAZUR. Yes, sir.

Senator KERRY. So in 1988, Mr. Awan is beginning to give you a picture of the BCCI, and you are beginning to gain a picture yourself of the BCCI, which has these broad money laundering tentacles into these other countries?

Mr. MAZUR. Yes, sir.

Senator KERRY. Now, in March 1988, did you pick Mr. Awan up at the Tampa airport in a limousine?

Mr. MAZUR. I'm not sure it was at the Tampa airport—a small fixed base operation near the airport and not in a limousine, but in a Mercedes. It wasn't a limousine, though.

Senator KERRY. It is all in the eye of the beholder. It was a limousine?

Mr. MAZUR. No. It wasn't a limousine, it was a normal car.

Senator KERRY. A normal Mercedes. For most Americans, that is a limo, but that is all right.

Mr. MAZUR. To me as well, sir.

Senator KERRY. Now, did he discuss the investigation of this subcommittee at that time?

Mr. MAZUR. In or around that time. Yes, sir. He did.

Senator KERRY. What did he say to you?

Mr. MAZUR. He informed me that the bank was concerned that the subcommittee was looking into their association with General Noriega. He jokingly referenced that BCCI must be doing something right, because they were named along with seven very prominent international institutions that had that type of association, and he explained that the bank had as one of its attorneys, retained for a number of reasons, Clark Clifford, and that with Mr. Clifford's help, the bank was attempting to find out as much as they could about the potential activities of the Senate subcommittee to anticipate moves.

The bank was certainly cautious. It is what really prompted Mr. Awan's visit to Tampa, because—at least in his eyes, I was a relatively new face and I sensed that he would have been much more comfortable to actually see the operation that I was involved in. And prior to that trip, he and Mr. Akbar Bilgrami suggested that we suspend business until April because of the activities that were going on. After the trip, business was resumed, and I know Mr. Awan, on a number of occasions, told his colleagues that his assessment of our operation was that it was a good and sound operation.

Senator KERRY. Did you know—strike that. Did he tell you at that time that BCCI owned First American Bank?

Mr. MAZUR. Yes, sir.

Senator KERRY. And were you surprised to learn that?

Mr. MAZUR. Yes, sir. I had previously received information, I think, in February 1987, from the officer in Tampa, that there was an association. But it wasn't until Mr. Awan's statements to me that I came to understand that the bank was, in fact, controlled by BCCI.

Senator KERRY. And did you know at that time that some of the funds that you were moving through BCCI were being in turn routed through First American in New York?

Mr. MAZUR. Yes. BCCI had a corresponding bank relationship with First American, and after receiving the funds, would pass them through First American.

Senator KERRY. Now, in a memo you wrote in 1988, you describe the objectives of Operation C-Chase, and you noted that identifying the highest ranking officers of the international bank who are culpable for the laundering of drug proceeds was one objective. Is that accurate?

Mr. MAZUR. Can you direct my attention to—

Senator KERRY. That is a March 1988 memo, I believe, either March 24 or 23. I do not have it right in front of me, but it is either March 24 or March 30, if my memory serves me right.

Mr. MAZUR. I have before me a memorandum dated March 15, 1988, that may possibly be the one you speak of.

Senator KERRY. All right.

Mr. MAZUR. Re: Status of Operation C-Chase, it's entitled.

Senator KERRY. Are there a number of objectives listed there?

Mr. MAZUR. Yes, sir. There are.

Senator KERRY. And the objectives—just tell us without the memo. I mean, what were the objectives that you were setting out to accomplish through this process?

Mr. MAZUR. In part to determine to what extent the higher ranking officers of BCCI were knowingly involved in the laundering of drug proceeds.

Senator KERRY. And I take it that you learned, did you not, that there was an inner circle, as you have testified, of bank officers who were involved in laundering drug proceeds. Is that correct?

Mr. MAZUR. Yes, sir. It appeared that there was a particular group that on a continuing basis dealt with these matters.

Senator KERRY. You specifically reference three bank officers who were communicating with you at that time. Is that right?

Mr. MAZUR. Well, certainly in March 1988, there would have been Sayed Aftab Hussain from Panama, Amjad Awan based in Miami, and Akbar Bilgrami based in Miami.

Senator KERRY. Now, have they been indicted?

Mr. MAZUR. Yes, sir. They were.

Senator KERRY. When were they indicted?

Mr. MAZUR. In—initially in October 1988, in Tampa.

Senator KERRY. In the takedown in Operation C-Chase?

Mr. MAZUR. Yes, sir.

Senator KERRY. Correct. OK. Now, did they tell you at that time, or did you have any idea at that time that the highest officers of the bank were involved in a criminal conspiracy?

Mr. MAZUR. By October 1988, yes, sir.

Senator KERRY. You knew that?

Mr. MAZUR. I knew that, they were telling me that.

Senator KERRY. Were you so reporting and recording in your memos to your superiors?

Mr. MAZUR. Yes, sir.

Senator KERRY. In February, when you mentioned taking that trip to Europe, did you believe at that point in time that it might be possible to bring a RICO action against the bank?

Mr. MAZUR. In February, I did not go to Europe. In May and September 1988, I did, and during that timeframe.

Senator KERRY. And in February, when you were contemplating it, did you at that time believe that it might be possible to bring a RICO action?

Tell the committee what a RICO action would be, with respect to the bank. What is a RICO action?

Mr. MAZUR. Racketeering and Influence Corrupt Organization Act offense, which primarily involves charging a group of individuals or an institution with racketeering, as a result of a pattern of crime, that pattern being certain—what is—predicate of offenses that qualify under racketeering. Certainly under it is included the Money Laundering Control Act, and wire fraud, mail fraud, other types of predicate offenses.

That was openly discussed with Mr. Jackowski in the U.S. attorney's office and really was their ball, but we did have a lot of discussions about the possibility of that occurring.

Senator KERRY. Well, why would a RICO have been a useful tool, or a useful way to indict BCCI?

Mr. MAZUR. Well, let me preface that by saying that I'm not a lawyer, and I know that there are a lot of things that needed to be taken into consideration.

Senator KERRY. No. I understand that. I know, obviously, Justice will have ample to say about it. I am just trying to get it from your perspective, that is all. The reason I ask it—and nobody is playing a game in here. I am not trying to hide anything, the reason I ask it is there were a whole series of memos, one dated April 27, 1988, and this is a memo from the Assistant Commissioner for Enforcement to the Regional Commissioner, in which it says that the officials of BCCI, who have thus far met with the UC agents, will be charged in a racketeering conspiracy. After this European trip, a decision will be possible in charging the bank itself as a racketeering enterprise.

Subsequently in a memo, March 1, 1988, this is from the regional office on C-Chase's monthly status report. Results achieved this month. Paragraph 3, at least 2 or possibly 3 officers of the targeted bank are indictable for multiple 18 United States Code 1956 and RICO offenses. Subsequently, in a memo dated May 10, 1988, from the Assistant Commissioner of Enforcement to the Commissioner, it is the opinion of the U.S. attorney's office that the probative evidence exists to establish corporate criminal liability against BCCI as an institution. Current plans for prosecution are to indict BCCI as an institution under the provisions of the RICO statutes and to indict the criminally liable banking officers.

Subsequently on March 15, there is another memo. I mean, there is memo after memo that sets out, this is RICO, we are going to use

RICO, RICO works, and I take it RICO would work here, because among other things it would have permitted the assets of the bank to be seized. Is that accurate?

Mr. MAZUR. It could have resulted in that, but let me say that although I agree with the content of the memos that you have there, many of them were not written by me, but were written by members of the investigative team who participated with me and other members of the undercover team.

Senator KERRY. But you did write a memo in which you drew the conclusion that you thought RICO would be useful.

Mr. MAZUR. Yes, sir.

Senator KERRY. OK. Why did you think it would be useful?

Mr. MAZUR. Because it appeared as a possibility to thereafter seek forfeiture of a lot of the bank's assets that would be located in the United States. Let me add that I know there are a lot of complexities that could interfere with that, but it seemed, from my level as an agent, that that was something that we would be strongly considering and, certainly, based on the conversations we had at our—I would say probably every 10 days to maybe 2 weeks—we would meet at a mutual site, an apartment, plus I had probably daily, if not at least every other day, spoken with Mr. Jackowski by phone, and that was things that we spoke of in these meetings and/or by phone, as something that we would be seriously considering as time went on, in the undercover operation, and especially beginning in June 19—June or July 1988.

The depth within which we had penetrated the drug and money laundering community was such that it was obvious my time would best be spent virtually 24 hours a day living with traffickers and money launderers, so I somewhat became a little less involved in the final strategies of what was to be decided, because of that need.

Senator KERRY. Do you know why a RICO indictment did not flow in 1988?

Mr. MAZUR. No, sir. I don't.

Senator KERRY. You do not know the answer.

Mr. MAZUR. In fact, I didn't even know the indictment had been returned until several days after it had been returned. Again, I was away 24 hours a day working undercover.

Senator KERRY. Now, ultimately you wound up seeking a new position, is that accurate?

Mr. MAZUR. Yes, sir, it is.

Senator KERRY. Would you describe to the committee what events led you to make that decision? Let me just say that before you did that, you took part in the takedown. You were there through the takedown of the official—of the number of officers, the original arrest, the closing of C-Chase, correct?

Mr. MAZUR. I was there but I was not present at the time of the arrests. There was a difference of opinion between myself and some individuals as to where and how the arrests might be considered to be had. And after seeing to it that the defendants with whom I'd had contact were at the country club—

Senator KERRY. Let me just do this. My colleague Senator Wofford has joined us and I want to give him an opportunity, but I also want to close this line of questioning. But I think it is important to have an understanding of sort of how this event sort of was

brought to a close. It is a colorful story. It is a very creative one. It is interesting, and I would like you to tell us how you sort of set up the arrest and what the cover was, and how that event took place.

Mr. MAZUR. Yes, sir. In the summer of 1988, approximately July, there was a meeting at the Customs office in Tampa, where it was decided that October 1988, particularly October 9—it was requested the arrest be orchestrated. That date had been set as early as February 1988. But actually implementing a plan was not put into action until July.

Senator KERRY. Could I ask you why it was important to have an October 1988 date?

Mr. MAZUR. I've had difficulty understanding that myself, at times.

Senator KERRY. Was it fair to say—agent Mazur, is it fair to say that this case was really not completed? That there were significant leads, significant amounts of evidence in October that could have and should have been followed up, that might have resulted in a much larger case?

Mr. MAZUR. Given the change of certain circumstances, yes. And I would like to explain that. There was an operational plan in writing that mandated to the various offices involved how one would go about effecting an enforcement action, that meaning an arrest or a seizure of either drugs or money. It was in writing that to do so should be done in a way not to compromise the main undercover operation. Everyone who participated in it was fully aware of that.

In February or March 1988, it became obvious to me that there were some intended plans, in particular in Detroit, to possibly make arrests and seizures based upon Federal warrants that would otherwise disclose the entire operation. In writing, in March 1988 I recommended that that be reconsidered and that consideration be given to taking the enforcement action the same way it was done previously in areas like Los Angeles, where local law enforcement actually took the action and were in no way in a position to compromise our operation.

Senator KERRY. So you were afraid, I mean there was some fear that something in Chicago might compromise some of the situation.

Mr. MAZUR. In Detroit.

Senator KERRY. But the decision was made notwithstanding that October was the date, was it not? October had been predetermined to be the date.

Mr. MAZUR. Yes, it had been told to me that that would be the timeframe.

Senator KERRY. Did you have any discussion with anybody about whether or not October was the date? Because October 1988 was a Presidential election year. And by having an October takedown it would make Customs be able to present the administration with a sort of present on a platter of a serious drug case and a major money laundering case.

Mr. MAZUR. There certainly was mere speculation that that played a part by people at low levels like mine. But beyond that, I cannot say more.

Senator KERRY. But it went through your head that that might have been a reason that there was such a compulsion to terminate this thing in October.

Mr. MAZUR. I was at a loss for understanding why October. I would say that for sure.

Senator KERRY. Now I know you do not want to, and I did not bring you here to sort of pick on individuals. And I do not want names and I am not looking for that. But I do want to understand what happened here, because it has been a source of public contention. It is an issue, it is alive, and it is out there.

And it appears to me that there were—that the case just was not complete. That there were significant pieces there that could have led you—I mean, the first American piece, the number of high-level officers in the whole series of tapes that had not yet even been transcribed. There was a lot of evidence that had not even been reviewed. Is that not accurate?

Mr. MAZUR. That is accurate. But it is important for me to add that something was done in June 1988 that created a major problem. That is, Federal warrants were in fact issued in Detroit.

Senator KERRY. But let us face it, I mean, they were issued, but they are Federal warrants and this is a Federal investigation. And if people were serious about this bank and what it meant, surely somebody could have federally intervened to deal with Detroit, could they not? There is no reason Detroit had to make what happened in Tampa and Miami happen, is that not right?

Mr. MAZUR. Well, there are a number of things that occurred that I could share with you that, at least from my perspective, made that happen.

For one, the Customs Service at the time had a different chain of command. It was not a straight line authority where Washington mandated nationwide direction in these types of operational matters. There were regional commissioners who had cross-functional civil and criminal responsibilities, who had the ultimate say-so in various parts of the country. Therefore if one of the regional commissioners had, for one reason or another, an ability to be more persuasive about how or why an action should have happened in this within the region, they would be able to pretty much mandate what would be able to occur in the other regions.

And I know a lot of discussion was had in the region that included Detroit as to why it was important, in their minds, that this be a Federal seizure. After the seizure occurred there was some turf battling that was publicized between Federal agencies about the entire matter.

But I think the crux of the problem there was in part remedied when Customs finally decided, very recently, to go to a straight-line authority as the other Federal agencies have. I'm glad to see they've done that, because I think it'll minimize some of these problems. But that certainly was a part of the play.

Another problem was that these very significant criminals were now charged federally. A choice was left in the hands of the Government; let them go or make the disclosure as required by law of the warrants that had been filed. Unfortunately these warrants, at least to my knowledge, were not filed with coordination between the undercover team or prosecutors, to my knowledge. And it caught me by surprise, especially in view of the written recommendation I made in March 1988 that it not be done. But it cast in

stone a very difficult decision. The decision ultimately was we can't let those people go, and we have to end the case.

There were other things that happened in the summer of 1988, such as a surveillance that the Colombians had countersurveillance, Colombian traffickers had countersurveillance and identified law enforcement authorities who were surveilling them. This caused one particular trafficker in Medellin, a very powerful individual by the name of Gerado Moncada, to suspect me of being a Federal agent. Despite that fact that he thought that, his lieutenant suggested otherwise and reported to me that they tried to dissuade him of that.

We lost a little bit of credibility, but then did in fact continue to gain—regain credibility with the Colombian traffickers to the extent that we picked up roughly \$5 million after the seizure in Detroit, and the surveillance which occurred in Detroit.

But those did play into the minds of those, I'm sure, who made the decision about ending the operation. I think the pivotal thing that created the conclusion was the cast-in-stone decision in Detroit to file the Federal warrants, where in effect one could say we somewhat shot ourselves in the foot.

Senator KERRY. Did you have an invitation to meet with other inner-circle BCCI officers in November?

Mr. MAZUR. There was discussion in September 1988 with Mr. Chenoy. And as I explained it to him, it was important for the mythical people behind me to be confident that their support was not based solely on an individual officer's authority. And that I was looking for some assurances that the claims they were making that the bank itself backed this were accurate.

And I pointed out to him that he was, although a general manager and very high, he was not the director of the bank, he was not a president. And that my people would want to meet with higher-ups. He indicated that that was something that would be possible, and expected to try and coordinate that sometime after October. Whether it would have occurred in November or 3 months later, no one will know. But it was discussed as something that could potentially occur.

Senator KERRY. Senator Wofford.

Senator WOFFORD. Mr. Chairman, I want to salute you for your perseverance in pursuing this matter. It is in the service of truth and the need of the Congress and the people to understand the dimensions of the BCCI conspiracy and our Government's role in exposing and prosecuting it. I have a few questions, but just three points seem to me, as I have tried to catch up on the hearings and the facts, to be clear and important.

First, without the dedication and the courage of agent Mazur and his colleagues, there would have been no arrests, no indictments, no convictions in Tampa. And we would be far, far behind where we are now. The murder of DEA agents in Mexico again underscores the danger of their work. And I salute you, agent Mazur, for everything you have done and are doing.

Second, banks such as BCCI that launder drug money are just as responsible for the flow of illegal drugs into this country as are the drug smugglers themselves. And as such, they should be pursued

with the full energy and resources of our law enforcement agencies. And I stress the full energy and resources.

Third, I hope to learn more about, and understand if it is possible to understand, the plea bargain agreement in 1988 which, so far, seems to me a far better deal for BCCI than it was for the U.S. Government and for our people. And I still find it hard to understand why a RICO case was not pursued against BCCI. And I hope we pursue those two decisions further today. May I now ask a few questions? While you were working on the BCCI prosecution phase, did you have adequate resources?

Mr. MAZUR. In my opinion, no, sir.

Senator WOFFORD. What was the impact of not having adequate resources?

Mr. MAZUR. Selfishly, to me first, as an agent trying to prepare for trial, I was confronted with some 1,200 tapes that needed to be perfected for the benefit of defendants, and their fair trial, and certainly for the Government. And there was a difficulty in coordinating the adequate number of people to keep that moving along. I, and a small number of other agents, two or three, spent at times literally 24 hours in a given day transcribing and trying to meet deadlines. And I still was, of course, responsible for being a responsible witness in a courtroom, which is not an easy thing for one to do.

But beside my own selfish needs as a witness, there were things relative to the investigation that I'm sure a lot of individuals would like to have seen energies put toward. But it seemed as though there were no adequate resources to attend to them at a given time. In view of the impending case, there were a number of people, five or six, who worked literally day and night, and I must highlight Mr. Jackowski's contribution because I had to look close in the office to see if there was a bed, and I don't think he ever left that room. He was constantly trying to do not only his job, but others' jobs that couldn't be done because there weren't adequate people there. And three or four other people from the IRS and from Customs worked very, very hard. But we needed more help than we had.

Senator WOFFORD. Could you compare your resources with those of the BCCI lawyers and investigators? How many of them were there?

Mr. MAZUR. Well, I remember an occasion related to me by one of the other agents who attended a pretrial hearing when Mr. Jackowski appeared on behalf of the Government. And some 23 attorneys appeared there on behalf of the defendants. He had the unmanageable task of trying to deal with all of their efforts to distract everyone from the issues at hand.

And that was typical not only of what the prosecutors faced, but what the agents faced. I understand from reports that there was over \$40 million expended in defense on behalf of BCCI. It is unfortunate, but I think if you tallied the amounts expended by our side, we were tremendously outnumbered, but I'm proud to say no one gave up. And the outcome was a success.

Senator WOFFORD. And so you felt outgunned, and I do not use the word lightly, you felt outgunned at least on a legal and investigative side.

Mr. MAZUR. Tremendously.

Senator WOFFORD. Did BCCI investigate you personally?

Mr. MAZUR. Yes, sir.

Senator WOFFORD. Can you tell us some more about that?

Mr. MAZUR. Through a source that I prefer to make reference to possibly in closed session, I came to learn that the principal investigative firm working on behalf of BCCI had, in fact, retained another investigative firm for the sole purpose of investigating me, and the IRS agent who is the affined in the BCCI searches. That was something that not only happened to me, but also happened to many other people who tried to work on behalf of the Government, and in particular, a citizen who showed tremendous courage to allow the Government to use his business in part as their cover, who later became a victim of malicious statements that were made by the investigators that led later to his financial ruin, and it's a shame that that type of thing occurred, but it did.

Senator WOFFORD. In your 20 years in action, have you experienced that kind of investigation from your opponents?

Mr. MAZUR. At times, but not at this level. The level of this kind of investigation was unique.

Senator WOFFORD. Were there any threats to the lives of agents or witnesses?

Mr. MAZUR. Yes, sir.

Senator WOFFORD. Could you say more about that?

Mr. MAZUR. There were a number of times when information concerning threats were conveyed. On two times that was alleged to have emanated from the Colombian traffickers, and at least one and possibly two times, when information was received from Pakistan through Government sources about potential plans to try to affect the Government's case by kidnapping someone.

Senator WOFFORD. No further questions at this point.

Senator KERRY. Thank you very much, Senator Wofford. Senator Brown.

Senator BROWN. Thank you. I would like your reaction to some speculations, and it is indeed speculations, so if you do not want to comment or do not feel comfortable, please say so.

In looking at this scheme, it does not appear that the money laundering would have paid enough to BCCI to be worth the risk, that they must have had other purposes in mind for what they were doing. Do you have any thoughts on that?

Mr. MAZUR. My only thought is that it would appear to me that although there might be other motives, certainly the profit to the institution is very great—potentially great. One need only look at the international institutions that had a presence in places like Medellin and other cities within Colombia, known to be the homes of drug lords, to know that there has to be some common thread for why so many of these international banks seek that flight capital, which moves from continent to continent.

It is massive and if one client, such as Gerado Moncada—as he was a client of BCCI—should be very persuaded by an institution to place funds with them; \$1.2 billion in a given year in gross receipts can certainly generate quite a bit of influence in the financial community.

Senator BROWN. I think that is what I am trying to get at. If you are talking about a couple percent, 2½-percent differential on money you launder, that surely cannot be the purpose of this whole operation, can it? I mean, is not the percentage that money launderers get usually greater than something like that?

Mr. MAZUR. Different elements in the money laundering process get sometimes even less than 2 percent, but in general the owner—the drug dealer who has his money here probably expects to lose anywhere from 10 to 15 percent of their proceeds to have the funds laundered.

Now, yes, the income from fees for handling that money is somewhat small, maybe 2 percent, but the power that can be yielded by having the deposits maintained at one's institution from those individuals translates into much more than the 2-percent fee that's made off of it.

Senator BROWN. I must say, that is the conclusion I am drawn to, that the motivation of BCCI appears to have been to build up massive deposits for another purpose, not that they did not make some money here, but that they must have had something else in mind.

Do you believe the incidents we are talking about—several of them, but the incidents in Detroit and Philadelphia, and New York, were somehow purposely designed to interfere with C-Chase or were the result of just lack of coordination? What observations would you have on that?

Mr. MAZUR. It's impossible for me to say within my knowledge. There are certainly things that I think were done by people in other parts of the country which, although having a detrimental effect on the overall C-Chase operation, may have been done by them with the spirit in mind of doing what they thought was the best for the case in their area. That type of thinking is very faulty to a coordinated law enforcement effort, and is the type of thing that I think can be more readily dealt with, with a chairman agency being more involved.

Whether or not there were ulterior motives behind some of the decisions that went beyond agency concerns and career concerns is unknown to me, but I do know that the principle of thinking what's best for the people, what's best for the case, is not what drove a lot of those decisions. It appeared it was because people didn't understand the big picture of the case. But to say more than that, I can't.

Senator BROWN. You mentioned speculation about the timing in October. What kind of hard evidence with regard to the timing should this committee be looking at? Are you aware of hard evidence other than speculation that would call into question the timing?

Mr. MAZUR. Well, I would think that the people who were responsible for making the decision of the choice of October 1988 would be able to answer presumably what their motives were for choosing it. Not being a part of them and being on the street level and agent level, trying to feed up the chain of command, impressions didn't put me in position to be able to understand what was really going on behind the scenes.

Senator BROWN. One last observation that I would like you to comment on, and again, this is speculation, you do not need to—

well, let me go back. First of all, can you give us names of who you think would be the operatives here that control this process that we ought to talk to about the timing?

Mr. MAZUR. Well, there were primarily three governmental bodies that were involved; the Department of Justice, the U.S. attorney's office, the Customs Service, and the Internal Revenue Service, and it would seem to me that individuals in the agencies from the assistant special agent in charge and above, and in the U.S. attorney's office from the prosecutor above, would be those people who would have had a lot of the detailed conversation, now. There's no doubt in my mind that the thinking that was going on, possibly in offices outside of Florida, the headquarters offices of Customs, may not have included or been on the same line as maybe the prosecutor, but the end result may have been the same.

For example, Mr. Jackowski, and I don't mean to speak for him, may have felt that the Detroit case put him in a position to have to say October, but his answer is October. Whereas, from Customs' upper management, their answer may be October, but it may be for different reasons. I'm not privy to what it is that went on in their minds to do that.

Senator BROWN. But those three agencies and the key decision-makers are where we ought to look?

Mr. MAZUR. Yes, sir.

Senator BROWN. The thesis I would like you to comment on in looking at this from the outside with hindsight—it is always an advantage—it strikes me that the money laundering is the tip of the iceberg. That the real significance is not the money laundering here. The real significance is the ultimate business plan of BCCI and the related arms trafficking and drug smuggling, and the variety of other schemes, that you might get an exemplary, spectacular settlement with regard to money laundering, but that if that settlement which was extraordinarily good for money laundering discouraged an investigation of the other more significant crimes that were going on, then it would harm law enforcement, not help it. Do you have any reaction to that?

Mr. MAZUR. In theory, what you're saying I agree in, but applying it to the BCCI case, I must admit that there are some criticisms of the plea agreement that I've heard spoken of, and seen reported, which I think are not completely accurate and tend to cast a more negative light on the plea agreement than might be fair. Although when we were trying to determine whether a plea agreement was appropriate, I must say that the Department of Justice and Mr. Jackowski went out of his way to hear the opinions of those who were involved in the case, and solicited a list of conditions under which that type of agreement might be considered appropriate by each party.

My list, I know, is a part of your package here, and for reasons of my own, I felt that in view of the final plea agreement, what it was going to be, I saw some advantages in simply including the bank as a defendant only because certain criteria that I hoped the bank could be held to in a plea agreement which is not legally feasible, I was supportive of, trying to discuss a potential agreement. But I have to admit I was, in the long run, of the opinion that we may as well go to trial, in view of the terms. But I don't believe that the

agreement precludes a lot of the followup that some people have suggested that it does.

Speaking as an agent and not as an attorney, it seems to me that the only thing it's bound by here is that the middle district was not in a position to pursue additional charges relative to the bank. But that the other districts, especially those like Miami, the southern district in Florida and in New York, they had a latitude to continue and certainly had a substantial amount of the criminal activity occurring in their districts, and could take advantage of all the information in Tampa, excluding that which might come as alleged cooperation from the bank.

Senator BROWN. So you are saying the agreement did not exclude that kind of followup in the other areas?

Mr. MAZUR. I don't believe that it did.

Senator BROWN. Thank you.

Senator KERRY. Let me pick up on a couple of areas if I can. I want to know some things about Capcom and what happened, but I want to finish up. Senator Wofford asked you the question about resources and it has been something that we discussed briefly yesterday in the office. You know, I was just reading through your memo on the occasion of your resignation, and I am not going to read the whole thing here, but I do want to just emphasize that it strikes me as a fairly remarkable statement. I mean, you came to a point in your career with Customs where for better or worse, you made a judgment that you needed to leave to make a statement. Is that accurate?

Mr. MAZUR. Yes, sir.

Senator KERRY. And, you know, I think it is a very honest and bold kind of statement in which you say it is with mixed emotions that you write a letter and you regret that conditions caused you to think about options in your career that were different. And you hoped to be trying to strengthen Customs against some inadequacies and injustices that you had noticed that you felt brought you to that point, and you said—I am going to read from one paragraph—you said: "I am not a disgruntled agent. I received outstanding evaluations through my 19-year career as a special agent. I have received innumerable awards and I have twice been recognized with national awards from the Association of Federal Investigators. I do not refer to my record for any reason other than to attempt to establish a basis from which an impartial judge of facts can weigh my credibility. And I would certainly weigh your credibility as high."

You also paid tribute appropriately to assistant U.S. attorney Mark Jackowski for his commitment to the effort, and helping to guide it to the pretrial and trial stage, and then you say, and I quote you: "I know that my formally advising you of the deplorable conditions in Tampa could cause some individuals in a professional circle to question my loyalty. But it is simply out of my love for this country and our critical need for ethical government that I think it's appropriate to respond to a request for my candor."

Leaving aside some of the other things that you stated, you come to a point where you say—and I quote you: "If it had not been for the nearly 2 years of achievement prior to March 1988, the ulti-

mate outcome would also have been lost. The ultimate outcome of Operation C-Chase." Is that accurate?

Mr. MAZUR. Yes, sir.

Senator KERRY. Then you say the outcome of the case, while notable, was considerably less than it could have been.

Can you share with the committee what you mean by that?

Mr. MAZUR. Yes, sir.

After the undercover operation was concluded, the Government was confronted with a massive task. Records had been seized from BCCI in Miami, from the homes of several officers in Miami, from the BCCI offices in London and Paris, from the homes of traffickers. And a tremendous task with a tremendous potential benefit faced the Government in using those records and analyzing those records to the best advantage of the Government.

And very little resources of those that were available could be used to deal with those matters because of the tremendous resources that were needed just to attend to pretrial motions and the upcoming trial in Tampa, despite the hopes of trying to get—at least from my perspective it seemed that three seasoned agents who had a lot of experience in these types of cases could ultimately be substantial leaders while the existing team went on with trial.

For one reason or another it was impossible for the Government to locate people who could fill that void or it was in the opinions of those who had the authority to make that decision an unnecessary use of resources, one or the other.

And I think a lot of followup in contacting witnesses and reviewing records that was lost that might have otherwise benefited the case and would have continued an instant momentum from October 1988 on without a time out for trial would have been a great advantage to us all to see the things that are happening in the BCCI case happen more quickly and smarter on our behalf. And I think that that was, that time out, was a costly time out.

Senator KERRY. You say in the next sentence, the indictment of additional defendants and the seizure of substantially more drug proceeds was lost directly as a result of the application of inadequate resources to the investigation.

Now I take it that in April 1989 there was a memorandum from a special agent to the special agent in charge which said, this is a separate memorandum—in addition, in excess of 100,000 documents were obtained from BCCI via search warrant. Although all of those records have been copied and provided to the defense, none of these records have been viewed and analyzed by case agents.

Do you know how many of those documents were reviewed by the end of the year, by the end of 1989?

Mr. MAZUR. Some have been reviewed, but for different purposes. I guess I would classify it somewhat as putting out fires and/or dealing with the instant trial as far as followup is concerned on those records.

Senator KERRY. You said putting out fires, people were——

Mr. MAZUR. An issue might come up that would require information.

Senator KERRY. So it was not systematic, it was just when an issue came up?

Mr. MAZUR. I think my best example of some of the problems we encountered on the records occurred after I finished testifying in the Tampa trial.

An IRS agent, a very gifted agent and I, analyzed certain records that we had had for—since of October 1988. We looked at those records because of putting out a fire. A bank officer was expected to testify and for cross-examination purposes it would be to our advantage to make sure those records were most closely scrutinized.

In a 2-week review we came across a major drug trafficker whose assets were identifiable from those records. We attempted to track the assets down. And unfortunately, within 1 year after the search, the assets had been sold and moved and protected in such a way that the Government was precluded from seizing them.

Senator KERRY. Do you know whether or not some of those were destroyed?

Mr. MAZUR. After they were in the hands of the Government, sir?

Senator KERRY. Did you learn whether or not prior to that they were being destroyed before the Government got them because of that delay?

Mr. MAZUR. There was a time when record destruction was explained to me by Mr. Awan in September 1988 primarily in response to subpoenas issued by your committee where he explained to me that subpoenas had been issued for records in Miami of transactions conducted by Panamanian corporations, of which one of those accounts was mine.

And during a recorded meeting he explained to me that he and others at the bank were hurriedly informing their clients to close their accounts in Panama. And after the accounts were closed an argument was going to be made that the records didn't legally have to be turned over because the accounts were now closed. And that with respect to my accounts, he was prepared to arrange the destruction of part of those records so that the tracks back to me would not be readily available.

Senator KERRY. Now you mentioned a moment ago, I take it, that once the takedown took place, the arrests were ongoing and you were doing trial preparation, that you and your associates were principally wrapped up in trial preparation. Is that correct?

Mr. MAZUR. Yes, sir. And I was somewhat isolated because I was in an off-site, out-of-Tampa location with headsets, boxes of tapes, and transcripts and mostly communicating by phone.

Senator KERRY. And you said earlier that there was a time out. What did you mean by a time out?

Mr. MAZUR. After the search and the arrest occurred, there were things that potentially, at least in my opinion, could be followed up relative to other officers who were not charged and records which might lead to superseding indictments or additional indictments.

But because of the resource crunch, those that were made available by the agencies had to, on behalf of the Department of Justice, be applied to the trial preparation.

Senator KERRY. So effectively, there was not a followup and there was not really a continuation of investigation into the leads that existed at that time?

Mr. MAZUR. To a limited extent there was, but not in effect, no.

And I must add, though, that it was always the plan of Mr. Jackowski that after the conclusion of the case, following convictions, these individuals would be brought back and compelled to testify. So that aspect of the followup was always considered.

Senator KERRY. In a subsequent memo, Mr. Mazur, you note in that memo, quote: "As a result of the inability to follow leads that would have compromised the covert operation prior to October 1988, there are literally hundreds of leads which must be pursued prior to trial involving." The rest of that particular memo is redacted so we do not know exactly what all the things are that it involves.

Let me ask you. Is that accurate, there were literally hundreds of leads?

Mr. MAZUR. Yes, sir.

Senator KERRY. But those, effectively, were not being followed up on.

Mr. MAZUR. For the most part, no, sir.

Senator KERRY. Did any of those leads pertain to illegal arms transactions?

Mr. MAZUR. Potentially they could have. And in hindsight now, yes.

Senator KERRY. Did any of those leads pertain to Iran-Contra transactions?

Mr. MAZUR. I'm not familiar with that, although I can say that I know there was a transaction involving Mr. Khassogi that Mr. Awan informed me of during the course of the undercover operation. So, presumably there would be transactions. Whether they were filtered through the branches that the searches occurred at or not, I don't know.

Senator KERRY. Did any of those leads pertain to payoffs of Government officials?

Mr. MAZUR. We can't say for certain, but knowing the conduct of BCCI at this stage, in hindsight, I can say that that possibility certainly exists.

Senator KERRY. Did any of those leads pertain to the illegal ownership of First American?

Mr. MAZUR. I believe there were records in the Miami location that would have related to, at least in part, the association between BCCI, First American, and National Bank of Georgia. For a not-brief, but for a couple of months I know there was followup relative to that issue under the guidance of the middle district of Florida and the U.S. attorney's office after the undercover operation was concluded.

Senator KERRY. Senator Wofford.

Senator WOFFORD. In your letter of April 3, 1991, calling the circumstances "dire and deplorable" relating to you and some of your colleagues, have you considered the possibility that those circumstances were related to problems that you felt personally were related to the BCCI matter and your role in it?

Mr. MAZUR. Certainly, in part. There were other problems that, from my perspective, existed that were either less or even not involving the BCCI matter.

Senator WOFFORD. Could you elaborate on what the relation of those problems was to BCCI, to your work on BCCI?

Mr. MAZUR. It appeared to me from where I sat that after the times where I had discussions with some factions of customs about a couple of issues, one the publicity that occurred in the BCCI case, which I had a different opinion about and the resource issue, it appeared to me from my perspective that certain things were occurring that some people might interpret as being retaliatory relative to me.

And it seemed to me that that was an occurrence not just isolated to me, but others who shared my opinions. And in that way it was somewhat affected or related to BCCI.

Senator WOFFORD. Do you have any evidence of the corrupting power of BCCI, that it reached into the Customs office?

Mr. MAZUR. I have no firsthand information about BCCI's possible influence of Customs, just speculation.

Senator WOFFORD. Do you have any evidence, any indication that you can give us that the corrupting influence of BCCI reached into any other Government agencies or agents that you dealt with, the Justice Department or elsewhere?

Mr. MAZUR. No, sir. I think the only thing I can say about that is that I know and was told that it was a practice of BCCI to attempt to ingratiate themselves on world leaders in a number of countries and that a concerted effort certainly was made here in this country as I was told it was made in a number of others with the hope that BCCI could curry favor as a result of that relationship. I know that was a general theme, beyond that I cannot say anymore.

Senator WOFFORD. Do you think the four instances in which your undercover operation and identify were revealed was an accident or by design to force the C-Chase case to closure?

Mr. MAZUR. I don't know, sir.

Senator WOFFORD. Would you describe those four instances and their impact on your case?

Mr. MAZUR. I don't know if there's four. But I will tell you as I can remember. One is the issue in Detroit.

Senator WOFFORD. Detroit?

Mr. MAZUR. Yes, sir. In that instance there were warrants, Federal warrants that were filed which although didn't name me or the other operatives by name, in such detail described our activities, it would be apparent from anyone who read the warrant that we were Federal agents. Those were sealed, but unfortunately in the drug world rules sometimes don't exist and it is not always a wise idea to rely on the system to contain information.

And there was another instance in New York in July 1988 when the agents who were working in New York were detected by Colombian traffickers who were doing countersurveillance. That created some credibility problems with one of the cartel members who suspected me to be a Federal agent.

There was also an instance in Houston when a surveillance was similarly suspected to be compromised.

And those are the three that come to my mind now.

Senator WOFFORD. Philadelphia?

Mr. MAZUR. I don't recall anything that occurred in Philadelphia that equates to the three examples I gave.

Senator WOFFORD. In your letter, you say that on 60 Minutes, U.S. Senator John Kerry, questioned why Federal Government

agencies failed to pursue the natural followup matters to the BCCI, principally, alleged criminal offenses by former Secretary of Defense Clark Clifford.

As it relates to the U.S. Customs Service, I believe the answer to Senator Kerry's question can be found within this letter. Could you elaborate, please, on what in your letter explains why there was no followup to the heart of the matter in BCCI?

Mr. MAZUR. I think basically the tone of what we've discussed here today, I had not—I was not aware if it had occurred that the things we've discussed here today were readily known with regard to the time out as I guess I have described it. And the limitations that we as a Government, because of the resources that are available, are confronted with in a case like this, when you're not only facing Colombian traffickers who make over \$1 billion a year, but a bank that can afford to spend \$40 million to defend a case, that's quite an awesome responsibility for the taxpayers to be expected to carry.

Somewhere in the middle of all this, I guess, there's a balance to protecting the taxpayers. But I can also see, with all that was at hand, it would have taken a good chunk of the Government's resources just to address this one case. We are certainly understaffed. And certainly more agents would have helped, but maybe we can work smarter.

Maybe some of the examples of what happened here can be positively used so that when we have this opportunity again, we can do more with what we have. I think we can do more with what we had. But I also think we could use the help.

Senator WOFFORD. Did the influence of high officials who were high persons of prominence ever appear to you in any form in terms of inhibiting your work or retribution toward you?

Mr. MAZUR. I wouldn't say it necessarily inhibited, but it slowed the process down some. There are times when people can step forward representing an individual and because of their standing can cause people to maybe think a little slower and more cautiously as they approach a particular case. And in this instance, I think there were times when a pause occurred because of the apparent influence of someone who represented an individual. And I don't know if that is more because of a human weakness or because of something that I am unaware of. But it certainly was something that was felt at times.

Senator WOFFORD. Could you tell us about those times, one or two or three or more?

Mr. MAZUR. To give detail, I would offer that maybe in closed session, the particular names might be best discussed in that forum. But there were times when, for example, relative to one defendant, a former Government official, a practicing attorney had a meeting, despite the fact that the defendant never made an appearance in a trial, challenging the good faith in which the indictment had been returned and which caused a number of people to feel it necessary to lay the case out to the Government officials who were contacted about whether or not this was a mistake on the part of the Government.

Eventually that former Government official's, then attorney's concerns were allayed, but it had to be dealt with and it certainly

was a distraction during the course of proceeding in trial preparation.

Senator WOFFORD. Any other instances that you can describe short of a closed session?

Mr. MAZUR. I'm sure that I could recall, given some time, other instances like that. And I would ask that you consider allowing me to give it some thought and possibly providing you with the information in a different forum at another time.

Senator WOFFORD. One last question on this point.

Senator KERRY. I just wanted to say we appreciate that and the record will remain open so that you may do so.

Senator WOFFORD. You said you had speculations that the corruptive influence of BCCI might be responsible for your problems reflected in the letter. You said it is nothing but speculation. Do you have any facts related to those speculations?

Mr. MAZUR. I think I can only fairly say that it's outside my knowledge as to what caused a number of things from my perspective. There are things that occurred which made it appear that either through agency work or for a misguided priority, things may have happened. Whether other things impacted on it or not, I'm unaware.

Senator WOFFORD. Thank you. Thank you, Mr. Chairman.

Senator KERRY. Before I turn to Senator Brown, you mentioned yesterday in the office very briefly when we met for the first time and chatted about this, that there were moments you kind of felt like you were out in the wilderness.

Do you want to share with the committee that sense that you and I know other people on the line—I know you are not alone on that, because I have talked to many other agents. I just would like to have that as part of the record.

Mr. MAZUR. I think the analogy I made that we were somewhat of a reconnaissance squad that had been out in the middle of the desert and encountering the enemy, and sent word back to the fort that we needed some help. And waited and fought and fought and fought but no help came.

But now I have to say very candidly that what it is that is occurring today, I think, is dramatically different in that there are some very substantial efforts underway and that have been underway throughout this year, which are much more realistic.

I guess since the Tampa trial ended in 1990, some of the resources that were on that trial are now involved in those efforts, but there are even more people, agents from the FBI and from IRS and from Customs, all of whom are working hard together in a number of different districts to get to the bottom of this.

Senator KERRY. Well, I would agree with that. I think there is a significant effort going on now and am pleased to say that I think significant resources are being committed, and I think that is good.

Let me ask you something, though. You know this case has become celebrated and maybe notorious is a better word, and so a lot of resources are focused on it. But you have talked about the amounts of money and the sort of outgunned status. And I would just like your comment generally on the status of the law enforcement effort that the war on drugs and so forth; I mean, are we not just outgunned?

Is this a terrible swim upstream, Sisyphus pushing that rock up interminably, or is there something? I mean, could we turn it around relatively rapidly with a resource allocation and so forth? What is your sense of this effort you have now spent 20 years of your life dedicated to?

Mr. MAZUR. I think any quick solution to a problem is only temporary and I think that a smart plan with dedicated resources is a wiser course of action than hoping that we could come up with the magic to end it.

Unfortunately, the problem is at terrible proportions currently, but in the last several years we've learned the importance of education and included that in our program, which, frankly from my perspective as an agent, I think was a tremendous accomplishment and is going to, in the long run, make an impact in this country.

But I also think, and I come back to what I mentioned before, that we need to take these agency wars and these jealousies and these problems and put them aside. The agencies themselves have been given a substantial period of time to show the maturity to put that aside. It hasn't happened.

I think the Drug Enforcement Administration that got the nod in 1973 deserves a chance to try it as a mature member of that important team. The other agencies, enough can't be said for the expertise they have. It is essential to a cohesive multiagency effort.

But we need a chairman. And from my 20 years, I can say, and I've been in now three agencies, it would not make any sense from my experience for it to be anything other than the agency that has all of its expertise dedicated to that since 1973.

Senator KERRY. I appreciate that answer. I am going to come back to one area, but I recognize first Senator Brown.

Senator BROWN. Just two questions quickly. One of them relates to the withdrawals in 1988 by drug dealers. As I understand the circumstance, shortly before the arrest of five BCCI officials in 1988, some international drug dealers made significant withdrawals from their BCCI accounts.

The speculation is, of course, that somehow they were tipped off. Do you have knowledge or any thoughts in this area about potential leaks that could have tipped off BCCI officials or drug dealing officials?

Mr. MAZUR. My exposure to that primarily comes from an article, I guess, that recently appeared, I think, in the New York Times. Although I lived the events, one thing that I did not notice that was a part of the formula of speculation in the article is something that was occurring as a result of actions of this committee.

That is, that in July, a subpoena or subpoenas were issued to BCCI for key records, primarily those in Panama. And I know I, as a money laundering client in the eyes of BCCI, was—I was vigorously told that it was in my best interest to close those accounts out as quickly as possible and transfer the funds to another BCCI branch.

Senator BROWN. Who was it that gave you that advice?

Mr. MAZUR. Two officers, Akbar Bilgrami, who was in the marketing division of the regional office of BCCI, the Latin American and Caribbean regional office, and also Amjad Awan, who is also on that staff.

I know that that same information was being conveyed to other customers and I'm sure that a large number of accounts from September and October were closed as a result of that encouragement from them.

Senator BROWN. Did they say why you should transfer the money?

Mr. MAZUR. Because of the possibility that this committee would be successful in enforcing a subpoena that would call for the production of records of transactions conducted on behalf of Panamanian corporations.

Senator BROWN. You mentioned earlier that there was a period when the drug dealers you were dealing with suspected you personally of being a law enforcement agent. What was it, what happened, that made them suspect you?

Mr. MAZUR. At the outset, when they first met me, there were certain challenges made by them. That's just normal and I didn't consider it prompted by anything other than caution. And then in May and June, it was revitalized because of the terminations of Operations High Seas and Cash Whip.

But then, in July 1988, the middle of July, after having met with Gerardo Moncada's representatives and struck a relationship that would have called for us to handle a large amount of his drug proceeds, that, of course, would have exposed his drug dealers here in the United States.

With the surveillance of the first major pickup of money from his people in New York, that pickup was for \$10 million, that sent a signal to Moncada, as I was told by his subordinates, that that act of seeing those police officers out there plus other suspicious activity, meaning the Detroit activity, caused him to think that I was a Federal agent.

But his underlings, who included these two people, one an attorney and the other, an airplane pilot, they were repeatedly suggesting that this was not the case. But those are the things that I think most caused him to feel that.

Senator BROWN. It was not necessarily that someone had fingered you, it was something that you had knowledge about, had been under surveillance, and I assume his suspicion then would have gone to anyone who had knowledge about that operation.

Mr. MAZUR. From my perspective, it appeared that there were some viable reasons that the defendants had their suspicions. Whether or not there were other things that caused them to have the suspicion, I don't know, but the ones I've mentioned are the only ones that I am personally aware of.

Senator BROWN. Going back for 1 minute to the recommendations from BCCI bankers to close accounts and transfer money, did you get any indication that the attorneys for BCCI were aware of that particular activity by the BCCI banking officials?

Mr. MAZUR. It appeared that way to me. I guess one of the things that caused me to have that opinion, among others, was a conversation with Mr. Awan in September 1988 which was recorded, wherein he specifically told me that in an effort to frustrate this committee's subpoena for his appearance he had been instructed by Mr. Altman to leave the country and to go to Paris, and that is

probably one of the things that comes first to my mind that led me to think that there was some knowledge.

Senator BROWN. He indicated Mr. Altman had suggested to him to leave the country so that he could avoid the subpoena?

Mr. MAZUR. Yes, sir.

Senator BROWN. Thank you. I just wanted to add a personal note of thanks. To put your life on the line for this country is an extraordinary commitment. Not everyone has a chance to make such a commitment, nor would everyone do so. I think everyone who is aware of your activities is deeply appreciative that there are people like you who are willing to make sacrifices.

I know coming here was not the easiest decision you've ever made, that you've had threats on your life and threats concerning the safety of your family. We very much appreciate the kind of commitment you've made to this Nation and your willingness to share your testimony with us.

Mr. MAZUR. Thank you very much, sir.

Senator KERRY. Mr. Mazur, you mentioned earlier an entity called Capcom. Do you want to tell us what Capcom is, or was?

Mr. MAZUR. It was a commodities futures brokerage firm based in London that had affiliates in Chicago and I believe also Dubai, or Abu Dhabi, and it was run by a gentleman by the name of Ziauddin Akbar, who is the former head of BCCI's treasury and a close personal friend of Mr. Awan's.

At the time that I first became aware of Capcom, that company came to my attention by a conversation with Mr. Awan and Mr. Agwani, when they explained to me that they would be soon leaving that bank.

That conversation occurred one of the very last days of June 1988, and that their plan was to take a large amount of the portfolio that they managed through some 70 high net worth clients, including myself, that comprised about one-half billion dollar portfolio with them, so that it could be managed in their private bank or private investment company that would be affiliated with Mr. Akbar, and they suggested that I strongly consider not suspending my activity with BCCI, to launder funds there, but to expand it to include Capcom and their future private banking firm.

To aid that end, they arranged for me to meet Mr. Akbar in London, which I did in September 1988.

Senator KERRY. Did you open an account at Capcom?

Mr. MAZUR. Yes, several.

Senator KERRY. And Capcom became part of the original indictment.

Mr. MAZUR. Yes, sir.

Senator KERRY. What did you discover about Capcom as your investigation continued?

Mr. MAZUR. What I discovered is that the company had—

Senator KERRY. And Capcom was a piece of BCCI, a sidebar.

Mr. MAZUR. It could informally be referred to as that. It was really an outgrowth of a BCCI plan. As it was explained to me by Ziauddin Akbar, he explained that as the head of the treasury, conducting futures transactions, it became obvious to him that the bank was losing some \$30 million a year in commissions, and that

it would be advantageous to the bank to form a commodities brokerage firm of their own.

Senator KERRY. To capture that money itself?

Mr. MAZUR. Correct. Of course, licensing here in the United States would be impossible for BCCI, or certainly difficult, and so it was a plan of Mr. Akbar's and the bank to defraud those who they submitted their applications to, to give the impression that this brokerage firm was not related to BCCI. As that plan began, BCCI pulled out, but Mr. Akbar, who had commitments from high net worth clients of his, decided to continue it. He therefore opened Capcom while he was still employed by BCCI, and then shortly thereafter left BCCI, became the president of Capcom, and ran that company.

Senator KERRY. What is the status of Capcom today?

Mr. MAZUR. I don't believe it's doing business any more as a result of this particular case. The recorded discussions with Mr. Akbar, we came to learn that it was his plan to launder drug proceeds through the transactions of Capcom. Capcom had advantages of doing that primarily because it had a gross transaction rate of roughly \$90 billion in an 8-month period of time.

Senator KERRY. \$90 billion.

Mr. MAZUR. Gross transactions.

Senator KERRY. And that's in a span of—

Mr. MAZUR. Eight months, as he described to me, and that with all of that activity going on, it would be easier to layer drug-related transactions that could not be otherwise discovered. He offered to, and in fact did that for us.

Senator KERRY. Now, is that what you later discovered as you continued investigating, or did you discover something else, or have you since discovered?

Mr. MAZUR. Since that period of time, the discovery—the particular discovery was made of funds that were owned by another individual in that institution, although it was certainly suspected that Mr. Awan's favorite clients and Mr. Bilgrami's favorite clients like myself would be shifted to Capcom, and as it turned out that was the case, and in part some of General Noriega's money was handled through Capcom at or near the same time of the transactions that were carried out on my behalf, and while I was in discussion with Mr. Akbar.

Senator KERRY. How much drug money do you believe was being laundered through Capcom?

Mr. MAZUR. I don't know, sir.

Senator KERRY. How much drug money do you believe was being money laundered through BCCI?

Mr. MAZUR. I think it would be safe to say untold amounts. The client list includes a number of the higher profiled—

Senator KERRY. Untold amounts, I mean, what are we talking about, \$15 million?

Mr. MAZUR. Fifteen what?

Senator KERRY. Million dollars.

Mr. MAZUR. Maybe for one client. In speculation, maybe for one client. Certainly not in total.

Senator KERRY. Are you talking about hundreds of millions, billions?

Mr. MAZUR. I would say probably hundreds of millions, but that again is speculation, and just based upon a consideration of who clients were, and the type of balances that were in the accounts.

Senator KERRY. Well, at that time you had information about France, Luxembourg, Switzerland, other countries, am I right—Panama, Colombia. The effort down in Tampa and so forth, how much did you launder through just in the Sea Chase operation?

Mr. MAZUR. Through BCCI, I think approximately \$14 million, which was—and I want to point this out, because it is something you need to consider when you're doing these types of operations, and I think it was considered in this right up front.

You don't want to become the world's best money launderer, because you're promoting crime as you're gathering evidence, and it was our plan to in fact launder a minimal amount of money while getting the maximum amount of information, and in comparison to some of the prior efforts, I think that's one thing that can be positively said about the Sea Chase operation. Others I know wound up in a position of handling several hundred million dollars, and in this instance we were able to contain it to roughly \$34 million in total, \$14 million through BCCI.

Senator KERRY. What other agencies of the U.S. Government were investigating Capcom?

Mr. MAZUR. At what particular time are we speaking of now, sir?

Senator KERRY. I'm talking about 1988, 1989.

Mr. MAZUR. In 1989, I'm sure the Commodities Exchange Commission, the regulatory agencies involved in commodities exchanges would be in Chicago, because they directly received information about Capcom's activities in Chicago from Tampa.

Senator KERRY. Was there mirror-image trading going on at Capcom?

Mr. MAZUR. Yes. That was the principal means.

Senator KERRY. Could you describe how that was done?

Mr. MAZUR. Yes, sir. It was the plan of Mr. Akbar to create accounts in the names of several different Shell corporations, foreign corporations established in countries that have laws that prevent you from knowing the true beneficial owners of corporations and that, on behalf of those corporations, after receiving an amount of money from us he would place an order to both buy and sell a commodity at the exact same time, ensuring no loss or gain, charging us the fees that would otherwise be related to those transactions, and then disbursing the funds to us through a third-party broker.

He dealt with some 30 third-party brokers throughout the world, so in effect you could put money in, in either Chicago or London, and in fact New York, because that's where the London Capcom office had one of its accounts, and you could later receive it in the name of a third-party broker such as Merrill Lynch or Prudential Bache in Tokyo, or wherever it is you wanted it, and considering the fact that it was scrambled amongst \$90 billion in transactions, it would take forever for anyone to ever find it.

Senator KERRY. Do you believe that Capcom was used as a delivery system to pay off politicians and Government officials?

Mr. MAZUR. I don't know, sir.

Senator KERRY. You don't have any knowledge of that?

Mr. MAZUR. I have no knowledge of whether it did or didn't occur.

Senator KERRY. Do you know what banks and brokerage houses are being used by Capcom?

Mr. MAZUR. I was advised of a number of different banks during the recorded meetings with Mr. Akbar. I remember him mentioning to me Manufacturers Hanover. I can't recall if more was said, but the record will speak for itself. Those are recorded conversations.

Senator KERRY. Did you convey your suspicions about Capcom to any other Government officials?

Mr. MAZUR. Directly back to those people involved in the Tampa prosecution.

Senator KERRY. How close were you to fully understanding the operations of Capcom at the time that the Tampa BCCI was taken down?

Mr. MAZUR. I would assess it as having my foot in the door at that stage.

Senator KERRY. Have you heard from other Customs or IRS agents of investigations involving money laundering in offshore banks that were stopped at the request or insistence of any intelligence agencies?

Mr. MAZUR. I don't recall that.

Senator KERRY. Operation Lone Star.

Mr. MAZUR. I'm not familiar with that, sir.

Senator KERRY. Customs Commissioner William von Raab testified that Customs agents found CIA accounts at BCCI. Did you have any personal knowledge of any CIA accounts that existed at the bank?

Mr. MAZUR. No, sir.

Senator KERRY. Do you have any knowledge—when you mentioned that Mr. Awan was being told to leave the country, did he say any reason why with respect to that? I mean, did he talk about any threats of General Noriega, or anything like that, or was it simply to avoid appearing before the committee?

Mr. MAZUR. No. The threat issue seemed from my perspective to be a recent invention. The purpose was specifically said that it was for the purpose of frustrating and preventing him from appearing relative to the subpoena.

Senator KERRY. In late March 1989—well, let me ask this first. Did you ever meet Jack Blum?

Mr. MAZUR. No, sir.

Senator KERRY. Did you ever have occasion to see any memoranda with respect to any of the information that he provided to the agency or to you?

Mr. MAZUR. It's possible I might have quickly seen—at that point in time I was very much involved in transcribing.

Senator KERRY. Senator Brown.

Senator BROWN. We focus somewhat in these hearings on the motives involved. In the Tampa deliberations and the case brought in Florida, is there value to getting convictions in Florida so that you can follow up on other leads elsewhere around the country?

Mr. MAZUR. Most definitely.

Senator BROWN. Why is that of value? What connection is there?

Mr. MAZUR. Because once a defendant is in fact convicted, the Government has the opportunity to call them before a grand jury and compel their testimony with respect to crimes they have knowledge of. It puts them in a position of either answering truthfully or perjuring themselves and facing future prosecution, or being found in contempt and having to be incarcerated for a longer period of time. Those options often cause for the Government to be in receipt of a lot of information from the defendant because of the predicament they find themselves in.

Senator BROWN. I am trying to pick the best way to follow up on all of this because of its incredible scope. Would the best strategy be to get some convictions and then follow the information that those convictions provide you to other areas, other leads, or to not bring that action and to try and follow the leads? First, it strikes me as basically a question of tradeoffs to some extent.

Mr. MAZUR. Well, I think especially in this instance, but in most, when both options exist it is in your best interest, if it is an extremely important matter, to do both, because you may find after a lengthy effort it was certainly anticipated that the result that occurred was a just result and would have occurred, but sometimes that doesn't happen, and at that point in time one would be left with nothing having occurred in the last 2 years.

But there are also things that are outside, possibly, the knowledge of some of those defendants which can be gained by the Government through an active investigation during that timeframe and may also be helpful in questioning them when that time does come.

Senator BROWN. Thus, the need to do both.

Mr. MAZUR. I believe so.

Senator BROWN. In these circumstances—and I recognize that you may not have been involved in all of this, but from what you know, have those convictions been helpful in generating additional leads, or additional evidence?

Mr. MAZUR. I believe they have been helpful.

Senator BROWN. Thank you.

Senator KERRY. Mr. Mazur, with respect to your testimony today, has anybody—were you required to meet with any people to review your testimony before you came here?

Mr. MAZUR. Not for the purpose of reviewing my testimony, but I did have a meeting yesterday—in fact, shortly before I came to your office—where members from the Department of Justice, Treasury, and Customs enlightened me somewhat about what I could expect in the way of the procedure, and we did speak about that, the layout of the room and the procedures that one should follow.

I have been questioned on prior occasions by representatives from Customs, from Treasury, from the Department of Justice, and from other subcommittees about matters related to this.

Senator KERRY. Is there anything that you feel uncomfortable about or constrained, somehow, not to share with the committee for any reason?

Mr. MAZUR. No, sir. There is one matter that I think maybe in closed session I would like to make mention of. Other than that, no, and I would like to say that at no time has anyone from the

Department of Justice or the Drug Enforcement Administration been anything other than completely supportive of my answering the questions as I know.

Senator KERRY. Is there anything that you have not been asked about that you think the committee ought to be aware of, or any issues that we have not raised that somehow the committee should understand in trying to understand the sequence here?

Mr. MAZUR. If it is at all possible, because of the breadth of the subject, if I might be given the opportunity to think about that and possibly provide in writing or in some way, something that might fall into that category. But as I sit here now, I can't think of something other than the one issue that I think you should be aware of.

Senator KERRY. Fair enough, and why do we not then leave—as I said earlier, we will leave the record open with respect to that and then we will return and hopefully have a chance, perhaps in closed session, to follow up on some of that if necessary, and we will plan to do that at the appropriate time.

Let me just say that there is a lot of detail, and this is a hearing and not a deposition, and not a sort of formal process of any kind, and we are not there for delving into a lot of the detail that clearly is there. It might be that in closed session or otherwise, with the record open, we may want to submit some questions to you, yet, for the record in order to complete it, but I think the basic picture and story has adequately been told by you, and we certainly appreciate that.

I want to reemphasize what Senator Brown has said. Your being here is important in understanding how all of these work, and the difficulties, and there are difficulties. I have been the first to acknowledge that there is nothing easy in pulling together various agencies and in making some of the choices, when you are as out-gunned in many ways—and that is a bad term, probably, but as we are against some of these corporate entities, as well as against some of these criminal entities.

I join Senator Brown and others in paying huge respect to you and to your colleagues, to those who are not here, to your partners in this, and to the other people who are on the front line thing to make these things work.

I think it is better to talk about those things and air those things than to simply leave them closeted up, so that you are out there feeling like you are in that desert with the army keep coming at you and coming at you, and you do not feel like you are getting any help.

Believe it or not, we are here to try to help, and I hope that somehow we will be able to do that. But I pay my respect to you for your commitment and for your dedication here, and I certainly hope that no one will feel other than that you have once again tried to serve here today, and that this does not represent any kind of breach of etiquette, or stepping out of the line, or so forth. You're not here willfully. I understand that. You are here at sufferance, as I know are some of the other participants, but we think it is important.

Now, in order to deal with the issue of security, we are going to recess the committee momentarily. I am going to ask all spectators and prospective witnesses if they would vacate the room so that

Mr. Mazur can leave separately and the camera room shut, and before that let me say it is now 12:30 p.m., so I will reconvene.

Senator Riegle I think is asking me to do an amendment on the floor on the banking bill. I am not sure whether I will have to, or have time, but we will try to reconvene promptly at 2 p.m. if possible, and we stand in recess.

Before we recess, let me just check one thing. [Pause.]

Senator KERRY. Let me just also say that on the letter that we referenced, I am going to put that in the record, but it is substantially redacted in order to protect any individuals within the department, et cetera, or some of the statements that were made therein that are not substantiated and do not have a countercomment, so we are redacting those.

We stand in recess until 2 p.m.

[The information referred to follows:]

P.O. Box 23223
Tampa, Florida 33623
April 3, 1991

Commissioner Carol Hallett
U.S. Customs Service
1301 Constitution Avenue NW
Washington D.C., 20229

Dear Mrs. Hallett,

With very mixed emotions, I'm writing you this letter to inform you that I have applied for a position with the Drug Enforcement Administration and have informally been advised of my imminent appointment. Although I am excited about embarking on a new career with the DEA, I regret that the conditions that caused me to consider options to my career with Customs still exist. As I prepare to leave the world of U.S. Customs, I hope that in some small way my leaving the service will give you and many others the strength to confront the inadequacies and injustices that have led me, and is leading other respected agents, to leave the U.S. Customs Service in North Florida. Due to the nature of the problems in Tampa, I and others feel the severity of Tampa's problems will not be recognized unless we sacrifice our careers with Customs.

I am not a disgruntled agent. I have received outstanding evaluations throughout my nineteen (19) year career as a Special Agent. I've received innumerable awards, and I have twice been recognized with national awards from the Association of Federal Investigators. I don't refer to my record for any reason other than to attempt to establish a basis from which an impartial judge of facts can weigh my credibility.

There are several key personnel within and outside of Customs who are not influenced by the "networking" and manipulation in Tampa, and I encourage you to explore these matters with individuals like U.S. Customs [REDACTED] and Assistant U.S. Attorney Mark Jackowski. [REDACTED] was the Group Supervisor of the C-Chase group for [REDACTED]. His superior professionalism and management skills are the major reason for our successful trial preparation concerning the C-Chase defendants. Mr. Jackowski was the Assistant U.S. Attorney that successfully guided C-Chase through it's covert, pre-trial and trial stages over a four (4) year period.

I know that my formally advising you of the deplorable conditions in Tampa could cause some individuals in my new professional circle to question my loyalty, but it is simply out of my love for this country and our critical need for ethical government that I think its appropriate to respond

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to John Hensley's request for my candor.

I have nothing but the greatest respect for the mission of the U.S. Customs Service, and I am especially proud to have served in "the war on drugs" with many fine men and women within Customs. The achievements that we have made in Tampa over the past three years have been made despite the repeated undermining of our work by certain [REDACTED] personnel who are well known within the Customs Service to have allowed their actions to be corrupted by a number of factors, including:

[REDACTED]

Unfortunately, the debilitating condition in Tampa has grown to unmanageable proportions and now threatens the ethics, morality and legality of the Customs Service in North Florida. Morale and meaningful productivity in the office is at an all time low, inter-agency relationships are shaken by mistrust, and the reputation Customs once had as a premier federal agency has been destroyed.

When the covert operation called C-Chase was two-thirds completed and [REDACTED] transformed the motives of management decisions from a healthy mentality guided by the interests of the government to a dysfunctional leadership guided predominantly by personal agendas. If it hadn't been for the nearly two years of achievement prior to March 1988, the ultimate outcome would also have been lost. The outcome of the case, while notable, was considerably less than what it could have been. The indictment of additional defendants and the seizure of substantially more drug proceeds was lost, directly as a result of the application of inadequate resources by [REDACTED] to the investigation. This opinion is shared by individuals meaningfully involved in the successes preserved within Operation C-Chase, including the lead prosecutor (See Attachment A, Memo of AUSA Jackowski, page 4).

The gross inadequacies realized via the overt investigative process within Operation C-Chase was forecast, in writing, to [REDACTED] frequently over the past three years by individuals, including myself. The efforts by me and others to professionally express concerns about Operation C-Chase, via the chain of command, were unfortunately misinterpreted by [REDACTED] as a personal affront that became so personalized that it precipitated nothing but vindictive and improper attacks against us and the case. Under [REDACTED] direction, the C-Chase agents have suffered through:

- the assignment of critical matters to unqualified

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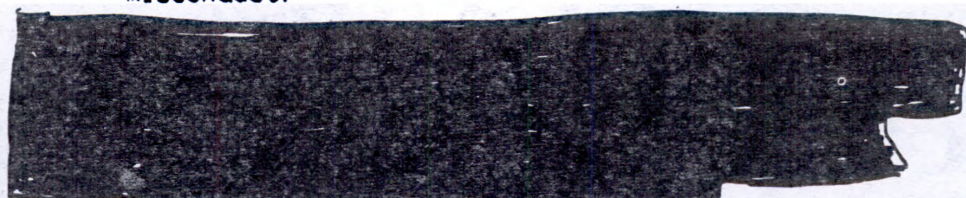
- agents for personal reasons, thus undermining easily attainable major goals,
- no secretary for two years,
 - the drastic understaffing of senior agents truly experienced in financial investigations, and
 - the repeated shuffling of different supervisors and acting supervisors, thus impeding consistency.

With respect to myself, [REDACTED] has:

- 1) improperly threatened [REDACTED] me on three separate occasions, simply because my good faith and appropriate actions conflicted with [REDACTED] personal career goals.
- 2) attempted to coerce management personnel to improperly and unfairly execute my employee evaluation.
- 3) attempted to illegally breach the doctor-patient relationship between a doctor and me, as well as the relationship between this same doctor and my wife.
- 4) improperly prevented my supervisor from submitting me for a financial award.
- 5) lied to Customs personnel and a foreign official in an effort to prevent me from representing U.S. Customs at an international seminar.
- 6) made false and derogatory statements to Customs employees and foreign law enforcement authorities relative to my mental health, despite having specific information to the contrary from a qualified professional.
- 7) denied me the resources and privileges normally extended to S/A's, thus impeding my ability to perform my duties proficiently.

[REDACTED] has taken similar improper punitive actions against other employees. I have been informed by my co-workers that [REDACTED] actions have included:

- abusing [REDACTED] power by causing an employee to be audited by the IRS for unjustified reasons.
- unfairly pursuing actions concerning alleged misconduct.



For the sake of my Customs colleagues, I wish the unwarranted actions inflicted upon the C-Chase investigation were atypical, but they are not. Unfortunately my experiences in Tampa are customary. In good conscience, I can't disserve the public by developing another BCCI type case within such a dysfunctional [REDACTED] leadership.

Recently on "60 Minutes", U.S. Senator John Kerry

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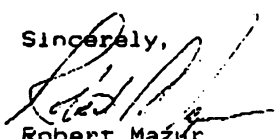
rhetorically questioned why federal government agencies failed to pursue the natural follow-up matters related to BCCI (principally alleged criminal offenses by former Secretary of Defense Clark Clifford). As it relates to the U.S. Customs Service, I believe the answer to Senator Kerry's question can be found within this letter.

Thank you very much for your kind and thoughtful letter of December 17, 1990. I will sorely miss the sincerity of people like yourself, [REDACTED] and others in Customs. I'm proud of what we accomplished together, under very adverse conditions. My greatest regret is that my transfer to DEA will probably preclude me from continuing my recent opportunity to organize and direct the follow-up investigation of BCCI in Tampa. If the follow-up investigation is well organized, supported and coordinated, it should produce the most significant money laundering prosecution ever achieved in the world community.

Although I recognize that my premature notice to you of these matters could work to my personal detriment, I felt it was my ethical and moral obligation to provide you with this advance notice because of the complexity of my current assignment. It will probably take a considerable time to brief my replacement and coordinate these matters with other agencies. I genuinely want to ensure that the recent momentum of the BCCI follow-up investigation is maintained, for the sake of the law enforcement community and the public we serve.

As soon as I am informed of a reporting date by DEA, I would like to contact you or John Hensley to coordinate my resignation in a fair and orderly manner.

Sincerely,


Robert Mazur

cc: Joh Hensley

Attachment

[Whereupon, at 12:25 p.m., the subcommittee adjourned, to reconvene at 2:20 p.m., the same day.]

AFTERNOON SESSION

The subcommittee met, pursuant to notice, at 2:20 p.m., in room SH-216, Hart Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Brown, and Wofford.

Senator KERRY. The hearing will come to order. My apologies to all for the delay. We are in the throes of, I think you know, trying to finish up on a number of pieces of legislation and hopefully, wrap up this session.

And the result is that there are about five conference reports and various different last minute dealings that we were all deeply involved in.

And I had a couple of things on the banking bill that I needed to talk to the chairman of the banking bill, so my apologies for beginning this late.

Let me ask each of you if you would rise so I may swear you in, if you raise your right hands.

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. GENZMAN. I do.

Mr. KEHOE. I do.

Mr. JACKOWSKI. I do.

Senator KERRY. Gentlemen, let me say as is customary, we will place your full statements in the record as if read and if you could each take 10 minutes, which I think is a fairly lengthy amount of time to try to summarize, it might not be adequate to get the whole statement in for one or two of you. I do not know. But then we will proceed to ask questions and obviously if there are areas that you want to fill in on, you will be free to do so during the course of that time. Are you leading off, Mr. Genzman?

TESTIMONY OF ROBERT GENZMAN, U.S. ATTORNEY FOR THE MIDDLE DISTRICT OF FLORIDA; ACCOMPANIED BY MARK JACKOWSKI, ASSISTANT U.S. ATTORNEY, AND GREGORY KEHOE, FIRST ASSISTANT TO THE U.S. ATTORNEY FOR THE MIDDLE DISTRICT OF FLORIDA

Mr. GENZMAN. Yes, sir, Mr. Chairman, only two of us have statements and we will try to be brief.

Good afternoon, Mr. Chairman, my name is Robert Genzman and I am the U.S. attorney for the middle district of Florida and I have held that position since September 1988.

With me, to my left, are first assistant U.S. attorney, Gregory W. Kehoe and then assistant U.S. attorney, Mark V. Jackowski.

The Bank of Credit and Commerce International and five of its officers were convicted of money laundering in Tampa in 1990. The bank paid the largest penalty ever imposed against a financial institution in the history of the United States and all five officers received substantial prison terms.

I consider the Tampa prosecution of BCCI to be a great achievement for Federal law enforcement and so do the professional pros-

ecutors of our office, as well as the law enforcement agents with whom they worked.

I appreciate this opportunity to address our handling of the BCCI case. And let me add, Mr. Chairman, that we appreciate your comments this morning about the dedication and performance of the investigators and prosecutors in the case.

The Justice Department first became involved in what eventually became the BCCI case in 1986, when the Customs Service advised the U.S. attorney's office that it was beginning an undercover operation, known then as Operation C-Chase. The details of C-Chase have been related before and I won't repeat those details now.

Significantly, by the time the undercover operation was finished, the undercover agents had laundered some \$14 million through BCCI, with the knowledge of the bank officials. The undercover investigation concluded in October 1988 and of course, the \$14 million in drug money that had been laundered through the bank was long gone at that time.

But at the time of the arrest, the Federal court issued a restraining order, shutting down BCCI's operations until the bank agreed to post a bond. So that BCCI was forced to transfer \$14 million of its own money to the United States to hold, pending the outcome of the trial.

The period between the October 1988 takedown and the July 1990 conclusion of a 7-month trial stretched the investigative and prosecutorial resources of the Customs Service, the IRS, and the U.S. attorney's office to the breaking point.

There were three principal factors contributing to that problem. First, C-Chase was an extremely complex, 2-year international undercover operation. Under any circumstances, the pretrial preparation and the trial would have consumed substantial prosecutorial and investigative resources.

Second, the defense attorneys in this case adopted a scorched-earth strategy and filed hundreds of motions and briefs on every imaginable subject.

Third, more than 2,000 face-to-face meetings or telephone conversations were taped in the course of the undercover investigation and most had not been transcribed for security reasons at the time of the takedown. Many of the conversations were in Spanish and Urdu and many of them were nearly inaudible.

All of the tapes had to be transcribed and then reviewed by the undercover agent for accuracy. The amount of resources devoted to C-Chase by the Customs Service was and is a matter of debate. It should be remembered, however, that the investigation and the prosecution were not substantially impeded as a result of any alleged lack of resources.

It's undisputed that the case was brought to an extremely successful conclusion with the conviction of the bank and five of its officers and the imposition of the largest monetary penalty to date against a financial institution.

More resources could always be added in a case of this magnitude and complexity. While agents and prosecutors had to put in very long hours and work under severe time constraints along the

way to bring this case to a successful conclusion, that is a regular, albeit unfortunate fact, of law enforcement.

Law enforcement resources are not infinite. They are extremely scarce. Every agent added to a large case has to be pulled off another case. And every huge case was in similar problems and C-Chase, again, was an unusually difficult case.

I'd like to address the plea agreement briefly. First, the indictment, among other defendants, BCCI and five of its officers with various drug conspiracy and various money laundering violations. In January 1990, on the eve of trial, the Government entered into a plea agreement with the bank.

The five individual defendants did proceed to trial. All five were convicted at the conclusion of the trial in July 1990 and received lengthy prison terms ranging up to 12½ years.

In the plea agreement with the corporation—let me start over. The plea agreement with the corporation was entered into for a number of reasons. First, the Government secured the conviction of the bank, one of its principal goals. Second, eliminating the corporation from the trial prevented a recurrence of a problem confronted in the 1986 case against the Bank of New England for money laundering, where that corporation was convicted, but all the individual defendants were acquitted.

Third, BCCI agreed to a number of substantial terms beyond the plea of guilty, including cooperation with the Government and a probation condition which incorporated the terms of its consent decree with the Federal Reserve.

Most importantly, however, the Government had been threatened with an adverse legal ruling, which would have substantially reduced the amount of any financial penalty that could be imposed against the bank, had it gone to trial.

The \$14 million was forfeitable only if the bank was convicted of drug conspiracy. If the Government was not able to prove the drug case, it would have had to return the \$14 million to BCCI.

And one of the hundreds of motions filed by defense counsel in the pretrial stage was a motion to dismiss the drug conspiracy count. In December 1989, the district judge ruled that the Government could not convict BCCI as a drug conspirator solely on the evidence that it was laundering the drug proceeds.

Notwithstanding legal precedent to the contrary, the judge stated that if the Government persisted in pursuing the drug conspiracy charges against the bank, he would dismiss that count. The effect of the court's ruling was to eliminate the possibility of a \$14 million forfeiture against that bank.

That ruling had a profound effect on the plea negotiations. The bank's attorneys had been attempting to have the \$14 million forfeiture count dropped from the indictment from the outset. Earlier they had suggested that the bank would plead guilty if the drug count and the forfeiture claim were dismissed.

We had rejected that offer but now it appeared that the trial judge was about to dismiss the drug count and give the bank exactly what it wanted. Consequently, the plea negotiations began again.

I want to emphasize that at all times these pretrial negotiations were handled exclusively by career prosecutors in Tampa, Gregory W. Kehoe, the first assistant U.S. attorney, and Terry A. Zitek, the

Chief of the Criminal Division. As a House subcommittee staff report found, no one in the Department of Justice in Washington was involved in any way in trying to undercut the plea negotiations at any stage. Mr. Kehoe and Mr. Zitek negotiated a plea agreement with the bank. I approved it and sent it to Washington and Mark Richard, a career Deputy Assistant Attorney General in the Criminal Division, approved it without change.

It was an excellent plea agreement for the Government then, and it is an excellent plea agreement for the Government now. Under that plea agreement, BCCI pled guilty to all counts, other than the drug conspiracy count which the judge indicated he intended to dismiss.

A cease and desist order issued in 1989 by the Federal Reserve, directing BCCI to refrain from money laundering activities, was made a part of that agreement. In compliance with that order was made a condition of BCCI's probation.

The plea agreement also required BCCI to cooperate with the Government in the future. BCCI did, in fact, cooperate and its cooperation during the 7-month trial against the individual defendants in 1990 was utilized in obtaining the convictions and the resulting jail sentences against those individuals.

Moreover, in the plea agreement, BCCI agreed by stipulation to forfeit the money that had been seized at the time of the arrest. With interest, that amount now came to \$15 million. That was extremely significant for several reasons.

First, this was the largest amount of money ever obtained from a bank as either a fine or a forfeiture in any money laundering case. It was three times the previous record and represents nearly half of all the money paid in fines and forfeitures by all the financial institutions convicted of money laundering since 1986.

Second, the \$14 million forfeiture represented a vastly higher sum than could possibly have been obtained as a realistic matter in the form of a fine. In short, if we had gone to trial, we almost certainly, because of the judge's ruling on the drug conspiracy count, we were almost certainly going to be giving most of the \$14 million bond back to BCCI.

By accepting the guilty plea, we were able to forfeit all of that money, plus interest, share it with foreign law enforcement agencies in the United Kingdom and France that had assisted in this particular investigation, and use it ourselves directly in the war on drugs.

The plea agreement has been criticized by the press and by a number of witnesses at various congressional hearings. I'm gratified that the House subcommittee staff report has found these criticisms to be inaccurate and unwarranted. According to that staff report, recent criticisms that the plea agreement was unduly lenient would appear to be inaccurate.

I want to deal with the most common misconceptions. No. 1, why did the Justice Department settle for \$15 million in the Tampa case when the Federal Reserve, just this past summer, was able to fine BCCI \$200 million? First, let me emphasize that fine has not been collected.

But first, as I've already explained, the Tampa case was a money laundering case involving \$14 million. Because that was the

amount of money that was laundered and that was the crime that BCCI committed, those were the facts that we could prove in court. The maximum fine was limited by the amount of money involved in the offense.

We cannot just pick numbers out of the air and impose fines based on what we suspect about a defendant's other activities. A fine must be based on what we can prove beyond a reasonable doubt.

Second, those who used the \$200 million fine figure imposed by the Federal Reserve in July as an example of what the Justice Department should have obtained are confusing apples with oranges. These are simply two cases for which BCCI has been punished separately according to the law that applied in each offense.

No. 2, why didn't the Justice Department revoke BCCI's license to do business after it was convicted? It was and it still is legally impossible for the Department to compel BCCI to cease operations. None of the provisions in the statutes passed by Congress to which BCCI pleaded guilty permit the revocation of a bank's charter.

Going to trial against BCCI instead of taking that guilty plea would not have altered that fact. The authority to revoke a financial institution's charter is a responsibility of the Federal Reserve Board and appropriate State agencies, not the Justice Department. The plea agreement did not, of course, preclude any such regulatory action.

No. 3, did the Tampa case involve only the corporation and mid-level employees? Why were no high-level officials charged?

Well, first the defendants in the original BCCI case were not low-level bookkeepers. They were senior management officials with substantial responsibility for BCCI's operations in much of the Western Hemisphere. Moreover, as our recent indictment of BCCI's present and other top officers makes clear, it was never our intention to simply stop investigating BCCI after that first indictment.

The 1988 indictment and the subsequent plea agreement and the trial were the best way to obtain the evidence needed to convict even higher level officials. And we think the new indictment proves that we were right.

Some have suggested that we should have taken the bank to trial and worked out a deal to get the cooperation of the individual defendants. There are a number of reasons why we did not pursue that strategy.

First, our view is that individuals who commit a crime should be held responsible. Putting just a corporation on trial while the individuals who committed the offense all sit as Government witnesses can be an empty exercise.

Second, it is higher unlikely that the BCCI employees indicted in Tampa were going to cooperate unless they were convicted and sentenced to prison.

Third, putting a defendant on trial, excuse me, putting a corporate defendant on trial with its employees is a risky undertaking. In two of the recent cases where a bank and its employees stood trial together, that is the Bank of New England in 1986 and the LBS Bank in 1990, the jury convicted the bank but let the individual defendants go.

And finally, as I mentioned before, if we had gone to trial against the bank, the court would have dismissed the drug conspiracy count and the forfeiture count and we would have been left with a much smaller monetary penalty.

If there is any doubt about this strategy, it was dispelled in September when we announced a new indictment, charging high-level BCCI officials with conspiracy to commit the money laundering violations previously prosecuted in Tampa as well as various additional offenses.

That indictment was obtained in part as a result of the criminal convictions of witnesses now cooperating with the Government. That indictment also demonstrates that the prosecutors in Tampa had been working for the past 1½ years to pursue this case as high as it leads in the BCCI hierarchy.

No. 4, did the Government, as part of the plea agreement, agree not to bring any future prosecutions? The plea agreement contained relatively standard language, committing the U.S. attorney's office for our district not to prosecute BCCI for any other Federal criminal offense then known to the Government.

This is by far the most understood, misunderstood part of the plea agreement. First the plea agreement does not bar future prosecution of any individual, whether an official of BCCI or not. The plea applies only to the bank. It does not prevent the U.S. attorney in Tampa or any other prosecutor, State or Federal, from prosecuting any individual from the president of BCCI on down.

Indeed, we recently indicted the president of BCCI, other high-ranking BCCI officials, Medellin cartel kingpins, and other cartel members for money laundering offenses related to Operation C-Chase.

Witnesses who have testified before this subcommittee that the plea agreement somehow protects corporate officials and other individuals, either do not know what they are talking about or have chosen to intentionally mislead Congress, the press, and the public.

Second, as the House subcommittee staff report makes clear, the plea agreement relates only to the U.S. attorney in Tampa. It does not bar any other prosecutors, State or Federal, from prosecuting BCCI itself for any offense.

Paragraph 16 of the plea agreement, a public document, is perfectly clear. It is further understood that this agreement is limited to the office of the U.S. attorney for the middle district of Florida and cannot bind any other Federal, State, or local prosecuting authorities.

That means exactly what it says. The Tampa U.S. attorney's office cannot bring future charges against BCCI unless the bank fails to cooperate or the Government comes up with new allegations, but other offices remain free to conduct investigations and bring additional charges against the bank. In fact, just last week the Justice Department announced another indictment against BCCI and other high-level officers of the bank.

What future charges would be barred by the plea agreement? At the August 1 hearing, several Senators asked that question. One witness, Mr. Von Raab, after spending hours attacking the plea agreement, responded, I don't know, I don't know the details or the technical side of it.

Mr. Jack Blum, another witness at that hearing, gave the committee a list that he said included misrepresentations to the Fed, misstatements on the audit papers delivered to regulatory authorities elsewhere, falsification of all the bank's books, aiding and abetting a variety of smuggling schemes, and bribery and other forms of corruption.

Every single one of the alleged crimes that Mr. Blum listed is being investigated by Federal agents and prosecutors somewhere other than Tampa, in Washington, Miami, Atlanta, and elsewhere. All of those offices remain free to prosecute the bank and its affiliates for any crime they uncover. In fact, BCCI and several affiliates were indicted in Washington on November 15 on racketeering and other charges as I mentioned.

As a U.S. attorney in Tampa, I can only prosecute crimes that occur in my district. If none of these crimes occurred in Tampa, and none appear to have occurred there at this point, we are giving up virtually nothing by agreeing not to prosecute them.

No. 5, a question was raised earlier today as to why RICO charges were not brought against the bank, which would have permitted—would they have permitted a more substantial forfeiture? It was our judgment that RICO charges should not be added to the indictment. Essentially, RICO charges would have greatly complicated an already complicated case. And there were concerns that the jury would not have been able to follow all of the charges and we did have jury problems in this particular case, let me add.

RICO charges would not have added significantly to the potential sentence. The forfeiture provisions were viewed as unnecessary in light of case law supporting the charges that we already had in the indictment. But simply, we believe that the RICO charges would have added nothing and would have greatly complicated the case.

It is absolutely untrue, as has been suggested, that the entire bank could have somehow been forfeited to the U.S. Government had RICO charges been brought in Tampa. There was simply insufficient evidence to support such a sweeping international forfeiture.

In conclusion, the prosecution of BCCI in Tampa was a significant law enforcement victory. The Department of Justice obtained the maximum monetary penalty from BCCI and had the responsible BCCI executives sentenced to prison. More importantly, it was the first step in an ongoing investigation and prosecution which continues to this day.

The criticisms of our performance have been unfounded and unfair. That concludes my testimony and I am prepared to answer your questions.

Mr. Chairman, I understand that Mr. Jackowski has an opening statement.

[The prepared statement of Robert Genzman follows:]

PREPARED STATEMENT OF ROBERT W. GENZMAN

Mr. Chairman, my name is Robert W. Genzman. I am the U.S. Attorney for the Middle District of Florida, which includes offices in Tampa, Orlando, Jacksonville, and Fort Myers. I have held that position since September 1988.

The Bank of Credit and Commerce International ("BCCI") and five of its officers were convicted of money laundering in Tampa in 1990. The bank paid the largest

penalty ever imposed on a financial institution in the history of the United States, and all five officers received substantial prison terms.

I consider the Tampa prosecution of BCCI to be a great achievement for federal law enforcement, and so do the professional prosecutors in my office and the career law enforcement agents with whom they work. I appreciate the opportunity to address our handling of the case.

OPERATION C-CHASE

The Department of Justice first became involved in what eventually became the BCCI case in 1986, when the Customs Service advised the U.S. Attorney's Office in Tampa that it was beginning an undercover operation known as Operation C-Chase. The details of C-Chase have been related before, most recently in the testimony of Deputy Assistant Attorney General Paul Maloney before the Senate Banking Committee on May 23, 1991. In sum, what happened in C-Chase was this.

Two Customs agents, posing as professional money launderers, made contact with a group of money launderers based in Medellin, Colombia. The Colombians arranged for millions of dollars—dollars derived from cocaine sales in the United States—to be delivered to the agents for deposit into Florida banks. The Colombians wanted the agents then to wire the money from Florida to Panama where it could be deposited into dollar-denominated accounts and converted into untraceable checks that would be sold on the black market in Medellin, Colombia. In this way, the Colombians would collect the payment for the drugs they had exported to the United States. All the agents had to do, aside from depositing the cash in Florida, was to open an account in a Panamanian bank in the name of a phony corporation. To do this, they chose a branch of BCCI in Panama City.

At this time, BCCI was chosen because it was the only international bank with branches in Panama that also had an agency in Tampa. The undercover Customs agent was able to walk in off the street in Tampa and make arrangements to open up a Panamanian checking account simply by completing the account opening forms.

In the fall of 1987, an officer of the Panama City branch of BCCI placed a telephone call to the agents in Florida. He said essentially, "I see that you are moving a lot of money through your account; I think you're laundering money; and I think I can help you do it more efficiently." This officer's "better idea" was for the agents to stop drawing checks on the Panamanian account and instead to direct a series of bogus loans, collateralized by certificates of deposit, through BCCI's branches around the world that would end up placing the drug proceeds in the hands of the Colombians in Medellin without creating any incriminating paperwork.

The agents accepted the bank officer's proposal and were soon introduced to a number of other, higher ranking BCCI officers in Miami, Nassau, Paris, and London. These officers, all having been advised that the agents' funds were generated by cocaine trafficking, eagerly assisted in laundering the money through a wire transfer system using certificates of deposit and back-to-back loans in the manner that had been described. By the time the scheme was finished, the agents had laundered \$14 million through BCCI with the knowledge of the bank officials.¹

The undercover investigation concluded in October 1988. The Customs agents staged a phony bachelor party to which all of the BCCI officers involved in the scheme were invited, and five of them were arrested. Of course, the \$14 million in drug money that had been laundered through the bank was long gone; but at the time of the arrests, a federal court issued a restraining order shutting down BCCI's operations until the bank agreed to post a bond in an amount equal to amount of money that had been laundered. Thus BCCI was forced to transfer \$14 million of its own money to the United States to hold pending the outcome of the trial.

RESOURCES DEVOTED TO C-CHASE

The period between the October 1988 takedown and the July 1990 conclusion of the trial stretched investigative and prosecutorial resources of the Customs Service, IRS, and U.S. Attorney's Office in Tampa to the breaking point. There were three principal factors contributing to the problem.

¹ The agents in Operation C-Chase laundered a total of \$33 million for the Colombians. Approximately \$17 million was laundered through other banks and was not part of the BCCI case. Another \$2 million was laundered through BCCI before the bank's officers were informed that the money was drug proceeds.

First, C-Chase was an extremely complex 2-year international undercover operation. Under any circumstances, the pretrial preparation and trial would have consumed substantial prosecutorial and investigative resources.

Second, the defense lawyers in the case (who were paid by the bank) adopted a "scorched earth" strategy and filed hundreds of motions and briefs on every imaginable topic.²

Third, more than 2,000 face-to-face meetings or telephone conversations were taped in the course of the undercover investigation, and most had not been transcribed, for security reasons, at the time of the takedown. Many of the recorded conversations were in Spanish and Urdu, and many of them were nearly inaudible. All of the tapes had to be transcribed and then reviewed by the undercover agent for accuracy.

The prosecution team consisted principally of two experienced Assistant U.S. Attorneys, Mark V. Jackowski and Michael L. Rubinstein, with assistance from other prosecutors as necessary. The investigative team consisted of both Customs and IRS agents. At its 1989-90 peak, there were eight Customs agents, six IRS agents, and four investigative aides, all assigned full-time. In addition, a variety of supervisory personnel were involved in the management of the IRS and Customs teams.

During the pretrial period, prosecutors from our office and the investigating agents asked several times for additional resources from the Customs Service to help with the workload. Although they received additional resources from Customs, they did not receive them as quickly as desired, nor in the quantities desired.

As you know, on April 3, 1991, Special Agent Robert Mazur, the principal Customs undercover agent, resigned from the Customs Service. One of Mr. Mazur's chief complaints was "the application of inadequate resources by SAC Tampa to the investigation."³

The amount of resources devoted to C-Chase by the Customs Service was and is a matter of debate. It should be remembered, however, that the investigation and prosecution were not substantially impeded as a result of any alleged lack of resources. It is undisputed that the case was brought to an extremely successful conclusion, with the conviction of BCCI and five of its officers, and the imposition of the largest monetary penalty to date upon a financial institution.

More resources could always be added to a case of this magnitude and complexity. While agents and prosecutors had to put in very long hours and work under severe time constraints along the way to bring the case to a successful conclusion, that is a regular, albeit unfortunate, fact of federal law enforcement. Law enforcement resources are not infinite—they are extremely scarce. Every agent added to a large case has to be pulled off another case. Every huge case presents similar problems, and C-Chase was an unusually difficult case.

THE PLEA AGREEMENT

The indictment charged, among other defendants, BCCI and five of its officers with various drug conspiracy and money laundering violations. On January 16, 1990, on the eve of trial, the government entered into a plea agreement with BCCI. The five individual defendants proceeded to trial. All five were convicted at the conclusion of the trial in July 1990, and received lengthy prison sentences (ranging up to 12½ years without parole) in November 1990.

The plea agreement with the corporation was entered into for a number of reasons. First, the government secured the conviction of the bank, one of its principal goals. Second, eliminating the corporation from the trial prevented a recurrence of the problem confronted in the 1986 Bank of New England money laundering trial, where the corporation was convicted and all the individual defendants were acquitted. Third, BCCI agreed to a number of substantial terms beyond its plea of guilty, including cooperation with the government and a probation condition which incorporated the terms of its consent decree with the Federal Reserve. Most importantly, however, the government had been threatened with an adverse legal ruling which would have substantially reduced the amount of the financial penalty that could be imposed against the bank had it gone to trial.

² See, e.g., *United States v. Awan* (Awan order), No. 88-330-Cr-T-13B (M.D. Fla. Dec. 5, 1989); *United States v. Awan* (Ashraf order), No. 88-330-Cr-T-13B (M.D. Fla. Dec. 5, 1989) (together rejecting challenges to the money laundering statutes on grounds of First Amendment violations, unconstitutional vagueness, the definition of "proceeds," the definition of "controlled substances," the definition of "transportation," duplicity, multiplicity, double jeopardy and other matters).

³ Letter from Robert Mazur to U.S. Customs Commissioner Carol Hallett, April 3, 1991, at 2.

The indictment charged the bank and its employees with, among other things, money laundering (18 U.S.C. § 1956) and drug conspiracy (21 U.S.C. § 846) predicated on the money laundering activities. Linked to the drug conspiracy was a forfeiture count (21 U.S.C. § 853) that, upon conviction, would have permitted the government to retain the \$14 million bond that had been posted at the time of the arrest. The money was thus forfeitable *only* if the bank was convicted of the drug conspiracy. If the government was not able to prove the drug case, it would have to return the \$14 million to BCCI.⁴

One of the hundreds of motions filed by defense counsel in the pre-trial stage was a motion to dismiss the drug conspiracy count. BCCI argued that even though the money involved in the case was drug money, a conspiracy to launder drug money was not the same thing as a conspiracy to distribute drugs. The government, relying on case law from several different circuits, responded that money laundering activity is an integral part of the drug business, and that therefore a money launderer is properly chargeable with participating in a drug conspiracy.⁵

On December 5, 1989, U.S. District Judge W. Terrell Hodges ruled that the government could not convict BCCI as a drug conspirator (under 21 U.S.C. § 846) solely on evidence that it laundered drug proceeds, notwithstanding legal precedent to the contrary. Judge Hodges stated that if the government persisted in pursuing drug conspiracy charges, he would dismiss that count of the indictment at the close of the government's evidence.⁶

The effect of the court's ruling was to eliminate the possibility of a \$14 million forfeiture against the bank under 21 U.S.C. § 853. At the time, the money laundering statute permitted only forfeiture of the bank's profits on the laundered money (approximately \$250,000), not the amount laundered. Furthermore, because the court did not formally rule on the motion pre-trial, the government could not appeal the decision.

The ruling had a profound effect on the plea negotiations. The bank's attorneys had been attempting to have the \$14 million forfeiture count dropped from the indictment from the outset. Earlier, they had suggested that the bank would plead guilty if the drug count and forfeiture claim were dismissed. We had rejected that offer, but now it appeared that the trial judge was about to dismiss the drug count and give the bank exactly what it wanted. And so the plea negotiations began again.⁷

I want to emphasize that at all times these plea negotiations were handled exclusively by career prosecutors in Tampa: Gregory W. Kehoe, the First Assistant U.S. Attorney, and Terry A. Zitek, Chief of the Criminal Division. As the House Subcommittee Staff Report found, no one in the Department of Justice in Washington was involved in any way in trying to undercut the plea negotiations at any stage.⁸ Washington's role was merely to make legal experts available to provide legal advice, and to approve the plea agreement once it had been finalized in Tampa. The assertion by Mr. Von Raab, for example, that I was referring all kinds of decisions to the Department of Justice is just plain false.⁹ Mr. Von Raab, I might point out, had already left the Customs Service by this time and thus has no way of knowing how the guilty plea was negotiated.¹⁰

⁴ As is discussed later, there was no applicable forfeiture statute for money laundering in effect at the time the offenses in this case were committed.

⁵ See *United States v. Orozco-Prada*, 732 F.2d 1076 (2d Cir.), cert. denied, 469 U.S. 845 (1984).

⁶ See *United States v. Awan* (Ashraf order), No. 88-330-Cr-T-13B (M.D. Fla. Dec. 5, 1989), slip op. at 10-11 (noting that in enacting the money laundering statutes in 1986, Congress had expressed its intention to have future money laundering cases prosecuted under those statutes and not under the old theory that money launderers were part of a conspiracy to commit the crime that generated the money being laundered). Significantly, at the trial of the individual defendants, the trial judge granted a Rule 29 motion dismissing the drug conspiracy count against all remaining defendants for these reasons.

⁷ See "Subcommittee Staff Report Regarding Federal Law Enforcement's Handling of Allegations Involving the Bank of Credit and Commerce International," September 5, 1991, at 20-23.

⁸ *Id.* at 24-25. ("The Subcommittee staff has found no credible evidence to date to support the theory that the U.S. Attorney's office in Tampa was controlled or directed by any higher-level Department of Justice officials in negotiating the plea with BCCI * * *. [T]he plea appears to have been wholly the product of negotiations between the First Assistant U.S. Attorney in Tampa, the Chief of the Criminal Division in that office, and attorneys for BCCI. The front-line Customs and IRS agents who had expended enormous efforts and, in some cases, taken on great risk to bring BCCI to justice, ultimately approved of the agreement entered into by the prosecutors.")

⁹ See Testimony of William Von Raab, Senate Foreign Relations Committee, August 1, 1991, transcript at 94 (morning session).

¹⁰ See Von Raab testimony, *id.* at 38 (morning session). ("* * * at that point I was not in a position to be arguing with Justice, since I was out in the private sector.")

In any event, Mr. Kehoe and Mr. Zitek negotiated a plea agreement with the bank. I approved it and sent it to Washington; and Mark Richard, a career Deputy Assistant Attorney General in the Criminal Division, approved it without change. It was an excellent plea agreement for the government then, and it is an excellent plea agreement for the government now.¹¹

Under the plea agreement, BCCI pleaded guilty to all counts, other than the drug conspiracy count which Judge Hodges indicated he intended to dismiss at trial. A cease and desist order issued in 1989 by the Federal Reserve directing BCCI to refrain from money laundering activities was made a part of the agreement, and compliance with this order was made a condition of BCCI's probation.¹²

The plea agreement also required BCCI to cooperate with the government in the future. BCCI did in fact cooperate, and its cooperation during the 7-month trial of the individual defendants in 1990 was utilized in obtaining the convictions and resulting jail sentences.

Moreover, in the plea agreement, BCCI agreed by stipulation to forfeit the money that had been seized at the time of the arrests in 1988. With interest, this came to more than \$15 million. This was extremely significant for several reasons.

First, this was the largest amount of money ever obtained from a bank as either a fine or a forfeiture in any money laundering case. It was three times the previous record, and represents nearly half of *all* of the money paid in fines and forfeitures by *all* the financial institutions convicted of money laundering since 1986.

Second, the \$14 million forfeiture represented a vastly higher sum than could possibly have been obtained, as a realistic matter, in the form of a fine. While the money laundering statute theoretically provided that a fine of up to \$28 million could have been imposed, no one in Tampa thought it even conceivable that the trial judge would impose a fine anywhere near the maximum.¹³ The amount of a fine, unlike the amount of a forfeiture, was then largely subject to the discretion of the court; judges, of course, typically based fine amounts on what had been imposed in past cases.¹⁴ The largest fine before January 1990 had been the \$5 million fine in the Banco de Occidente case in Atlanta. That case had involved the laundering of \$410 million. The prosecutors in Tampa were convinced that if a \$5 million fine in a \$410 million case was the largest fine ever imposed in the past, they were not likely to get a larger fine in the \$14 million case against BCCI. I concurred in that judgment.

In short, if we had gone to trial, we were almost certainly—because of the judge's ruling on the drug conspiracy count—going to be giving most of the \$14 million bond *back to BCCI*. By accepting a guilty plea, we were able to forfeit that money, plus interest, share it with the foreign law enforcement agencies in the United Kingdom and in France that had assisted in the investigation, and use it ourselves directly in the war on drugs.

CRITICISMS OF THE PLEA AGREEMENT

The plea agreement with BCCI has been criticized by the press and by a number of witnesses at congressional hearings. While I am gratified that the House Subcommittee's Staff Report has found these criticisms of the agreement to be inaccurate and unwarranted,¹⁵ I want to deal point-by-point with the most common misconceptions.

Number One: Why did the Justice Department settle for \$15 million in the Tampa case when the Federal Reserve, just this summer, was able to fine BCCI \$200 million?

¹¹ See "Transcript of Sentencing Proceedings," Case No. 88-330-Cr-T-13, February 5, 1990, Remarks of the Court at 15. ("I have decided that acceptance of the plea agreement and a disposition of this case in accordance with the terms of the plea agreement is an appropriate and a just disposition of these proceedings as they pertain to the Bank of Credit and Commerce International, S.A.")

¹² To my knowledge, this requirement had never been applied before in any case against a bank. It was not only innovative, but an extremely effective way to involve a regulatory agency in the post-conviction supervision of a financial institution. This requirement was important, because the Probation Office, acting alone, lacks the expertise and resources to monitor the operations of an international bank.

¹³ See Remarks of the Court at Sentencing Hearing, Transcript at 14, indicating that the maximum fine was \$28 million.

¹⁴ The BCCI sentencing occurred prior to the adoption of organizational sentencing guidelines by the U.S. Sentencing Commission, which went into effect on November 1, 1991.

¹⁵ Staff Report, *supra* note 7, at 23. ("Recent criticisms that the plea agreement was unduly lenient would appear to be inaccurate.")

First, as I have already explained, the Tampa case was a money laundering case involving \$14 million. That is how much money was laundered; that is the crime BCCI committed; those were the facts we could prove in court.

The maximum fine was limited by the amount of money involved in the offense. We cannot just pick numbers out of the air and impose fines based on what we suspect about a defendant's other activities. A fine must be based on what we can prove beyond a reasonable doubt in a court of law.

Second, those who use the \$200 million fine imposed by the Federal Reserve in July 1991 as an example of what the Justice Department should have obtained in the Tampa case are confusing apples with oranges.¹⁶ The Federal Reserve's fine was in connection with the First American Bank acquisition by BCCI in Washington, DC. It had nothing to do with money laundering, and it had nothing to do with Tampa. So even if the facts relating to First American had been known at the time of the guilty plea—and they were not—they could not have been made part of the Tampa case and they could not have given the court the authority to impose a fine above the maximum penalty for money laundering. These are simply two separate cases for which BCCI has been punished separately according to the law that applied to each offense.

Number Two: Why didn't the Justice Department revoke BCCI's license to do business after it was convicted in Tampa?

It was (and still is) legally impossible for the Department to compel BCCI to cease operations. None of the provisions in the statutes to which BCCI pleaded guilty permit the revocation of a bank's charter. Going to trial against BCCI instead of taking a guilty plea would not have altered that fact.¹⁷

The authority to revoke a financial institution's charter is the responsibility of the Federal Reserve Board and appropriate state agencies, not the Justice Department. The plea agreement did not, of course, preclude any such regulatory action.

Number Three: Did the Tampa case involve only the corporation and mid-level employees? Why were no high level officials charged?

The defendants in the original BCCI case were not low-level bookkeepers. They were senior management officials with substantial responsibility for BCCI's operations in much of the Western Hemisphere.

Moreover, as our recent indictment of BCCI's president and other top officers makes clear, it was never our intention to simply stop investigating BCCI after the first indictment. The 1988 indictment and subsequent plea agreement and trial were the best way to obtain the evidence needed to convict even higher-level officials. And we think that the new indictment proves that we were right.

Some have suggested that we should have taken the bank to trial and worked out a deal to get the cooperation of the individual defendants. There are a number of reasons why we did not pursue this strategy.

First, our view is that individuals who commit a crime should be held responsible; putting a corporation on trial while the individuals who committed the offense all sit there as government witnesses is an empty exercise. Second, it is highly unlikely that the BCCI employees indicted in Tampa in 1988 were going to cooperate with the United States unless they were convicted and sentenced to prison. Third, putting a corporation on trial *with* its employees is a risky undertaking. In two of recent cases where a bank and its employees stood trial together—Bank of New England in 1986, and LBS Bank in 1990—the jury convicted the bank and let the individual defendants go. And finally, as I mentioned before, if we had gone to trial against the bank, the court would have dismissed the drug conspiracy and forfeiture counts and we would have been left with a much smaller monetary penalty.

If there was any doubt about this strategy, it was dispelled in September when we announced a new indictment charging high-level BCCI officials with conspiracy to commit the money laundering violations previously prosecuted in Tampa, as well as various additional offenses. That indictment was obtained in part as a result of the

¹⁶ See Von Raab testimony (8/1/91), transcript at 36-37. ("Now admittedly, this, in relative terms was a big fine, but it was only with respect to other banking fines, but no one had ever seen a crime quite like this. So I mean, the Federal Reserve's suggestion of \$200 million is probably closer to the mark * * *")

¹⁷ See Remarks of the Court at Sentencing Hearing, Transcript at 14. ("[T]he only sanction in the form of a criminal sanction available to the court in punishing corporate defendants is the imposition of a fine or a monetary penalty in the form * * * of a forfeiture, where that has been agreed to in the plea agreement, as in this case. It is not within the power or authority of the court in disposing of this case to take any punitive action against either of the corporate defendants with respect to the maintenance of their respective banking operations or impose any burden on their charters or anything of that kind. The focus of the court's attention, therefore, must be with respect to the amount of the monetary or pecuniary penalty to be imposed.")

criminal convictions of the witnesses now cooperating with the government. That indictment also demonstrates that the prosecutors in Tampa have been working for the past 1½ years to pursue this case as high as it leads in the BCCI hierarchy.

Number Four: Did the government, as part of the plea agreement, agree not to bring any future prosecutions?

The plea agreement contained relatively standard language committing the U.S. Attorney's Office for the Middle District of Florida not to prosecute BCCI for any other federal criminal offense then known to the government. This is, by far, the most misunderstood part of the plea agreement.

First, the plea agreement does not—does not—bar the future prosecution of any individual, whether an official of BCCI or not. The plea applies *only* to the bank.¹⁸ It does not prevent the U.S. Attorney in Tampa or any other prosecutor, state or federal, from prosecuting any individual from the president of BCCI on down. Indeed, we recently indicted the president of BCCI, other high-level BCCI officers, a Medellín Cartel kingpin, and other cartel members for money laundering relating to Operation C-Chase and other offenses.

Witnesses who have testified before this subcommittee that the plea agreement somehow protects corporate officials and other individuals either do not know what they are talking about or have chosen to intentionally mislead Congress, the press, and the public.¹⁹

Second, as the House Subcommittee Staff Report makes clear,²⁰ the plea agreement relates only to the U.S. Attorney in Tampa. It does not bar any other prosecutor, state or federal, from prosecuting BCCI itself for any offense. Paragraph 16 of the plea agreement is perfectly clear:

It is further understood that this agreement is limited to the Office of the United States Attorney for the Middle District of Florida and cannot bind other federal, state or local prosecuting authorities * * *.

That means exactly what it says.²¹ The Tampa U.S. Attorney's Office cannot bring future charges against BCCI (unless the bank fails to cooperate with the government, or the government comes up with new allegations), but other offices remain free to conduct investigations and bring additional charges against the bank.²² In fact, just last week the Department of Justice announced another indictment against BCCI and high-level officers.

What future charges would be barred by this agreement? At the August 1 hearing before this subcommittee, several Senators asked that question. Mr. Von Raab, after spending hours attacking the plea agreement, responded, "I don't know. I don't know the details or the technical side of it."²³ Mr. Jack Blum, another witness at that hearing, gave the committee a list that he said included "misrepresentations to the Fed, misstatements on audit papers delivered to regulatory authorities everywhere, falsification of all of the bank's books, aiding and abetting a variety of smuggling schemes, * * * and bribery and other forms of corruption."²⁴

¹⁸ Paragraph 1(f) of the plea agreement clearly provides: "if the court accepts the plea agreement, the United States Attorney's Office for the Middle District of Florida agrees not to charge the Bank of Credit and Commerce International, S.A." or any of its "offices, subsidiaries, affiliates, [or] related or controlled entities" * * *."

¹⁹ See Von Raab testimony (8/1/91), transcript at 86 (morning session). ("Well, as part of the agreement, they basically agreed not to prosecute the bank or the individuals for anything * * * which the U.S. Attorney there already knew about.") See also, *id.* at 19 (afternoon session).

²⁰ Staff Report, *supra* note 7, at 25. ("There appears to be little merit to the charge that the plea agreement insulated BCCI from further prosecution by the Justice Department and its U.S. Attorney's offices." * * * In other words, the Subcommittee staff believes that the suggestion that the Justice Department had sold its case against BCCI 'down the river' evidences a misperception about the actual terms of the plea agreement and little, if any, knowledge of Judge Hodges' prior opinion and ultimate ruling in the individual defendants' trial.")

²¹ See Remarks of Gregory W. Kehoe at Sentencing Hearing, Transcript at 11-12 (explaining, in presence of defense counsel, that plea would not bar other federal prosecutors and regulatory agencies from pursuing allegations against BCCI or its officers).

²² Even if the plea agreements were not specifically binding only on the U.S. Attorney for the Middle District of Florida, the law would not permit prosecutors in one district to speak for the U.S. Attorneys in other districts. That is so even where the agreement promises that "the government" will not prosecute. "A plea agreement binds only the office of the United States Attorney for the district in which the plea is entered unless it affirmatively appears that the agreement contemplates a broader restriction." *United States v. Annabi*, 771 F.2d 670, 672 (2d Cir. 1985).

²³ Von Raab testimony (8/1/91), transcript at 20 (afternoon session).

²⁴ Testimony of Jack Blum, Senate Foreign Relations Committee Hearing, August 1, 1991, transcript at 8 (afternoon session).

Every single one of the alleged crimes that Mr. Blum listed is being investigated by federal agents and prosecutors somewhere other than Tampa—in Washington, DC, Miami, Atlanta, and elsewhere. All of those offices remain free to prosecute BCCI and its affiliates for any crime that they uncover. In fact, BCCI and several affiliates were indicted in Washington on November 15, 1991, on racketeering and other charges.

As the U.S. Attorney in Tampa, I can only prosecute crimes that occur in my district. If none of these crimes occurred in Tampa—and none appear to have occurred there—we were giving up virtually nothing by agreeing not to prosecute them.

Number Five: Why weren't RICO charges brought against the bank, which would have permitted a more substantial forfeiture?

It was our judgment that RICO charges should not be added to the indictment. Essentially, RICO charges would have greatly complicated a case that was already exceedingly complex, and there were concerns that the jury would not be able to follow all of the charges. RICO charges would not have added significantly to the potential sentence to be obtained; the forfeiture provisions were viewed as unnecessary in light of case law supporting the § 846 charges and § 853 forfeitures already in the indictment.

Put simply, we believed that RICO charges would have added nothing, and would have greatly complicated the case. It is absolutely untrue, as has been suggested, that the entire bank could have somehow been forfeited to the U.S. government had RICO charges been brought in Tampa. There was simply insufficient evidence to support such a sweeping international forfeiture.

CONCLUSION

The prosecution of BCCI in Tampa was a significant law enforcement achievement. The Department of Justice obtained the maximum monetary recovery from BCCI and had the responsible BCCI executives sentenced to prison. More importantly, it was the first step in an ongoing investigation and prosecution. The criticisms of our performance are unfounded and unfair.

That concludes my testimony. I am prepared to answer your questions.

U.S. Department of Justice Criminal Division—Convicted Financial Institutions

Institutions	Crime	Criminal fine
1986		
Metropolitan National Bank, TX.....	B.S.A. violation.....	\$310,000
Border Money Exchange, TX.....	B.S.A. violation.....	8,250
Bank of New England, MA.....	B.S.A. violation.....	1,240,000
Cribbian Federal Savings, PR.....	B.S.A. violation.....	450,000
Commercial Bank & Trust, MA.....	B.S.A. violation.....	202,100
First Missouri Bank, MS.....	B.S.A. violation.....	75,000
Housatenic Bank & Trust, CT.....	B.S.A. violation.....	750
Magnolin Federal Bank, MS.....	B.S.A. violation.....	22,000
McLean Bank, VA.....	B.S.A. violation.....	80,050
Provident Institution for Savings, MA.....	B.S.A. violation.....	100,000
Seaway National Bank, NY.....	B.S.A. violation.....	2,000
Union Country Bank, TN.....	B.S.A. violation.....	10,000
1987		
Citizen First National Bank, NJ.....	B.S.A. violation.....	2,000
Inco Bank & Trust Ltd., Cayman Islands.....	Conspiracy.....	456,000
Merchants National Bank, IN.....	B.S.A. violation.....	500,000
Merchants Trust Bank, LA.....	B.S.A. violation.....	1,000
1988		
E.F. Hutton, RI.....	B.S.A. violation.....	1,010,000
American National Bank, CT.....	B.S.A. violation.....	222,000
National Bank of Fairhaven, MA.....	B.S.A. violation.....	150,000
Central National Bank/Alamo, TX.....	B.S.A. violation.....	250,000
Ramsey Savings & Loan Assn., NJ.....	B.S.A. violation.....	6,000

U.S. Department of Justice Criminal Division—Convicted Financial Institutions—Continued

Institutions	Crime	Criminal fine
Bank J. Vontobel Co.....	B.S.A. violation.....	20,000
1989		
Banco de Occidente, Cali, Colombia	Conspiracy	¹ 5,000,000
Peoples Bank NA, NJ	B.S.A. violation	3,000
Ponce Federal Bank, PR.....	B.S.A. violation	2,500,000
Smithfield State Bank, PA	B.S.A. violation	51,600
United Orient Bank, NY	B.S.A. violation	2,000,000
1990		
Bank Leumi, NY.....	B.S.A. violation	242,000
Bank of Credit & Commerce Int'l, Luxembourg.....	Money laundering	¹ 15,200,000
LBS Bank, PA	B.S.A. violation	50,000
First Westside Bank, NE.....	B.S.A. violation	1,200
First Bank of Georgia, GA.....	Money laundering	¹ 85,000
Red Oak State Bank, TX.....	B.S.A. violation	100,000
National Mortgage Bank of Greece	B.S.A. violation	8,000,000

¹ Forfeiture.

Mr. JACKOWSKI. For the record, my name is Mark Vincent Jackowski. I am an assistant U.S. attorney in the district of Colorado. I have been an AUSA in that district since January 1991. Prior to that, from January 1985 until January 1991, I was an assistant in the middle district of Florida, located in the Tampa division.

While in Tampa, I was assigned to the Tampa offices, middle district of Florida's task force—that is Organized Crime, Drug Enforcement Task Force. I handled major narcotics and money laundering cases.

I am here today because I was the lead prosecutor on the Tampa-based investigation and prosecution, known as Operation C-Chase, which included the prosecution of BCCI and its officers. I have personal knowledge of, and participated in virtually all of the decisions made by the middle district of Florida concerning the BCCI prosecution.

I am aware of the criticisms of the Tampa prosecution. And I believe that they are incorrect and unfair. During the course of my prepared remarks, I will try to address some of those criticisms, which Mr. Genzman has not addressed during the course of his.

When Mr. Mazur testified before the subcommittee this morning, Mr. Mazur gave a good review or summary of the course of Operation C-Chase and how it is that the undercover agents came to be in contact with BCCI.

Mr. Mazur indicated that during December 1987 he had had a series of meetings in Miami with a BCCI officer from Panama. And that officer proposed to him better ways to launder money. The name of that officer, as I believe Mr. Mazur testified to, was Sayed Aftab Hussain.

Just before Christmas 1987, following those series of earlier December meetings, Mr. Hussain provided the name of Amjad Awan to Mr. Mazur as a contact in Miami. In January 1988, Mr. Mazur met with Mr. Awan, Mr. Hussain, and Mr. Akbar A. Bilgrami, another BCCI Miami banker, in Miami, and made arrangements

through Awan and Bilgrami to launder money via BCCI Panama, and a BCCI subsidiary in Switzerland known as BCP.

In March 1988, my office received its first contact from Jack Blum, then an investigator for this subcommittee concerning BCCI. Mr. Blum advised me, as well as others within my office, as well as others on the investigative team of the subcommittee's investigation of drug trafficking and money laundering in Panama.

He informed our office that the subcommittee had authorized and intended to issue subpoenas to two BCCI officers stationed in Miami—Amjad Awan, and S.M. Shafi. We informed Mr. Blum that we were in the midst of an undercover investigation concerning BCCI.

Based on our request, which was cleared through Main Justice, Mr. Blum agreed to hold off the issuance of the Senate subpoenas for a period of time.

As the subcommittee knows, the investigation thereafter continued between December 1987 and March 1988. Millions of dollars in U.S. currency representing the proceeds of cocaine sales were picked up in Detroit and New York. These funds were laundered through BCCI Panama, BCCI Luxembourg, and BCP Switzerland, as a result of the knowing participation of Mr. Awan, Mr. Bilgrami, and Mr. Hussain.

During late March 1988, the undercover agents met in Costa Rica with Mora and a representative of a new, major client of Mr. Mora's, who was, at that time unidentified or undocumented. During this meeting an expansion of the undercover agent's relationship with this new, major client was discussed to include the use of BCCI's facilities in Europe, to further the client's objectives.

Subsequent to the meeting, Mazur made arrangements with Awan and Bilgrami to travel to Europe in order to establish relationships with additional BCCI officials in Paris and London. This new client of Mr. Mora's also agreed to send representatives to Paris to meet with the undercover agents, and BCCI officials, to discuss an expansion of the client's relationship with the bank.

As Mr. Mazur indicated, he did, in fact, have meetings with BCCI officials on the continent, and in the United Kingdom, following these introductions. As a result of these meetings between the bakers, the undercover agents, and the client's representatives—one fellow by the name of Armbrecht, and another by the name of Uribe—the undercover agents, thereafter—during June 1988—began to pick up massive quantities of this client's cocaine proceeds in New York.

By the way, this client was later identified or documented to be an individual by the name of Gerardo Moncada, who was then unknown to law enforcement. It so turned out that Mr. Moncada is, in fact, a leading and probably right now, the ranking member of the Medellin Cartel.

In any event, these pickups from Mr. Moncada's organizations continued until late July 1988 when they stopped, due to two, intervening events. These events dictated that the takedown of Operation C-Chase not be extended past October.

First, at the end of June 1988, the Customs Service seized 110 kilograms of cocaine from Moncada's operatives in Detroit, MI, and arrested the operatives. The arrests of the operatives triggered a

chain of events which, due to the discovery provisions of the Federal Rules of Criminal Procedure, threatened to terminate the undercover investigation.

As the subcommittee knows, defendants have the right to obtain the evidentiary basis of the charges against them from the Government. In this instance, the arrests were predicated, or based, on information developed from the C-Chase undercover operation. As a result of discussions between my office, the U.S. attorney's office in Detroit, and the Department of Justice in Washington, we agreed that prosecutors in Detroit would seek lawful delays in the discovery process through October 1988.

Although these delays were granted by the court in Detroit, the information clearly would have to be released soon, thereafter.

Second, during mid-July 1988, Moncada organization operatives conducted countersurveillance of currency pickups by undercover agents in New York, and discovered persons that they believed, or who they believed, to be law enforcement agents watching the pickups.

The Detroit seizure and arrests, coupled with the burned New York surveillance, caused the Moncada organization to suspect that Mr. Mazur and his associates were, in fact, Federal agents. As a result of these events, several things happened.

First, the currency supply for the Moncada organization dried up.

Second—although this was not learned until long after the indictment—the Moncada organization removed Mazur's signatory power on the \$1 million certificate of deposit account, which meant that Mazur no longer had the authority to transfer those funds.

Third, Mazur was informed by Armbricht—Armbricht was Moncada's operative, with whom he had met in Europe, during the course—and this meeting occurred during early August at a hotel in Miami—that he, Mazur, was suspected of being a Federal agent, and therefore business with him had been suspended by the Moncada group.

Mazur was told that if he was an agent there was, quote: "No hole in the world deep enough to hide him," closed quote. And I believe that quote comes from a transcript of that meeting. In short, the undercover investigation seemed to be heading rapidly toward a conclusion.

By the summer of 1988, a decision had been made to terminate the C-Chase investigation with a phony wedding between Mr. Mazur and an undercover agent posing as his fiancée. The ruse of a wedding was intended to lure BCCI officers and others, the others being traffickers, into the United States in order to affect their arrests. A wedding date of October 9, 1988, was set, and plans were made to coordinate simultaneous arrests and searches in London, Paris, and the United States.

Accordingly, in August 1988, representatives of British and French Customs attended meetings in Tampa to address some of the coordination issues regarding a takedown. At the time it was contemplated that Mr. Mazur and other cover agents would again travel to Europe during September 1988, in order to acquire additional evidence.

However, in early 1988, a 1,200 kilogram load of cocaine secreted in anchovy cans was seized by the Customs Service, and the DEA, in a port of Philadelphia, based on information obtained through the C-Chase investigation.

Roberto Alcaino, who Mr. Mazur testified about this morning—the principal behind this load—was arrested at LaGuardia, NY, following the seizure. This seizure, and the resulting arrests, made it even more doubtful that the undercover operation would reach its planned, October takedown date.

Nevertheless, on the heels of this seizure, Mazur and his undercover fiancée travelled to Europe. They met with a fellow by the name of S.Z.A. Akbar, the same Ziauddin Akbar who Mr. Mazur testified about this morning, who was a principle of Capcom in London, on September 20 and 21, 1988.

During the course of these meetings, after Mr. Akbar was informed that the source of the funds was narcotics trafficking, he agreed to assist in their laundering. From there, the agents travelled to Paris, and again met with the French bankers—among them, Mr. Howard and Mr. Hassan and Mr. Chinoy—about whom Mr. Mazur testified this morning.

Additional evidence relative to the culpability of these three, individual bank officers, as well as the bank as an institution, was acquired during the course of these meetings. The undercover agents also took steps to insure that these individuals attended the undercover wedding. The agents returned to the States by the end of September 1988. And as the subcommittee knows, the takedown was then scheduled for October 8, 1988.

Which leads us to the takedown. I am aware that questions have been raised with respect to the timing of the takedown. Indeed, it has been suggested—in fact, was suggested this morning, I believe—that the takedown was predicated upon nonlaw enforcement considerations. To my knowledge, those claims are entirely false.

Back in February 1988, an Operation C-Chase coordination meeting had been held in the Tampa area. That meeting was attended by agents and prosecutors from districts around the country in which the undercover activity was being conducted. The Customs Service, the lead agency in the investigation, had determined by that time that the operation should last no longer than the late summer, or early fall of 1988.

The reasoning behind the takedown date was as follows: First, past undercover operations had given rise to concerns that they were unduly facilitating criminal activity by laundering large sums of money without obtaining commensurate results. The Customs Service and my office agreed that C-Chase would attempt to launder the minimal amount of funds consistent with the evidentiary goals of the investigation.

In other words, if there came a point in the investigation where we continued to launder funds on behalf of old clients without developing evidence against additional defendants, we would attempt to terminate the operation.

Second, it was contemplated in February 1988, and ultimately proved correct, that we would be able to make a case against culpable BCCI officials and the bank, by the time of the takedown—the time of the takedown being then set for October 1988.

Third, by October 1988, the undercover agents had been operating undercover for almost 2 years; that in some person's minds—and it is an extremely long time to be engaged in such stressful and dangerous activities. In any event, in my view—and I believe to be correct—the operation was fortunate to last until October 1988, because of the Detroit and Philadelphia seizures, and the, quote, unquote, “burned New York surveillance.”

As the subcommittee knows, the phony wedding between Mr. Mazur and his fiancée did not occur. What occurred in its place was a phony bachelor party. And the defendants who had travelled to the United States from overseas were, in fact, arrested. And several BCCI officers were, in fact, arrested during the course of the bachelor party—Mr. Awan, Mr. Akbar A. Bilgrami, the Mr. Hussain who I mentioned before, Mr. Howard from France, and Mr. Hassan from France—as well as Colombia money launderers; Mr. Mora—about whom Mr. Mazur testified this morning; certain of Mr. Mora's associates; and certain of Mr. Alcaino's associates, who were, as of that time, unarrested.

Alcaino had, in fact, been arrested during mid-September 1988 as a result of the anchovy seizure. Two other defendants, including Gerardo Moncada's operative, Mr. Armbricht, were arrested that weekend in Miami.

At this juncture, I would like to address another issue that has arisen with respect to this case, and that is the issue of leaks. Unfortunately, leaks to the others—to the press and others—occurred during the course of the undercover operation.

At least one national television news organization, NBC, was informed of the existence and nature of the undercover investigation prior to its conclusion by high-level officials of the U.S. Customs Service—not by anyone within the Department of Justice, Senators, but by high-level officials of the U.S. Customs Service.

These officials were apparently acting on the instructions of then Commissioner William Von Raab. The first such disclosure occurred at a dinner meeting between Customs representatives and an NBC news reporter at the Four Seasons Hotel in Washington, DC, in September 1988, about 1 month prior to the takedown. NBC and one other national news organization, CBS, had television cameras waiting at the Customs Service office in Tampa, after the bachelor party arrests.

It is regrettable, Senators, that the lives of the undercover agents, including Mr. Mazur—and remember that Mr. Mazur's life had already been threatened—were further jeopardized by these leaks to the press.

In fact, after the leaks to the press occurred, Mr. Mazur, as well as other agents involved in this matter—and indeed, there were a number of other agents acting in an undercover capacity in this matter—continued to meet and speak with targets of the investigation in those undercover capacities, for several weeks after the nature of this undercover operation had been leaked to the news media.

Mr. Blum also found out about the impending takedown in advance. In a memorandum dated October 7, 1988, which was released as part of the record of the proceedings before this subcommittee on August 1, 1991, Mr. Blum, in a memorandum of that

date, October 7—which was the Friday before the arrests and the searches—described his knowledge of the impending takedown as follows. And I quote:

During the next 3 days, more than 80 people associated with the Bank of Credit and Commerce International, and related companies, will be arrested for money laundering and drug dealing. The arrests will be in more than a dozen locations here, and in Europe, and have been carefully coordinated. At the same time, the bank, itself, in a variety of accounts which have been identified as drug accounts, will be seized here and in London and Paris. The Customs operation is the result of a 2-year sting operation.

We should also take credit for fingering this situation.

Mr. Blum, had at that—Mr. Blum also obtained a copy of draft, Customs Service press materials, which were based on confidential, internal, Department of Justice memoranda, at some point prior to the unsealing of the indictment. The arrests were made on Saturday, October 8. The indictment was unsealed on Tuesday, October 12, I believe. And Mr. Blum had, in fact, known, as of October 7, 1988, of the impending takedown. He was also given copies of these draft Customs Service press materials which were, in fact, based on inaccurate and outdated Department of Justice memoranda.

Mr. Blum provided copies of those materials prior to the unsealing of the indictment to Mr. Altman, and to his partner, Mr. Kovin, of the Clifford & Warnke law firm. These materials later formed the basis of numerous, pretrial motions, which questioned the sufficiency of the Government's proof, and its conduct of the undercover investigation. Although the Government ultimately prevailed, substantial time was required to respond to the motions.

Following the indictment, the attorneys for the bank and the individual defendants began to file hundreds of motions on every conceivable topic—many of which were very complex. At the same time, we were preparing to supersede the indictment to add additional allegations and defendants. In the midst of these efforts, on March 23, 1989, Mr. Blum contacted the Customs Service. Mr. Blum indicated that through a source of his, he was privy to information with respect to BCCI that he was willing to share with us.

Mr. Blum also indicated that his position as an investigator with the subcommittee would be terminated by the end of March 1989, because the subcommittee was concluding its hearings.

Through Mr. Blum and his source, we made arrangements to meet with the alleged witness to BCCI wrong-doing. A series of meetings, which were taped at my direction, occurred in Miami on March 28 and 29, 1989. During the course of these meetings, the alleged witness who was an ex-BCCI official, provided information concerning alleged illegal activities engaged in by BCCI.

Thereafter, on March 30, 1989, the ex-BCCI official travelled to Tampa with Mr. Blum, and was interviewed by myself, agents working on the matter, as well as two, other assistant U.S. attorneys.

The ex-BCCI official who had been portrayed by Mr. Blum as having direct, firsthand knowledge concerning various matters, either did not have such information, or was unwilling to admit it. The ex-official's information appeared to be primarily hearsay, gossip, rumor, and innuendo. He was also unwilling to testify at any public proceeding.

We were disappointed, because Mr. Blum had led us to believe that the witness could provide firsthand information relative to the bank's involvement in money laundering and other matters.

It was our assessment that the ex-BCCI official had mainly provided secondhand information, and it was apparently Mr. Blum's view, as well. In a memorandum dated March 22, 1989, from Mr. Blum to Senator Kerry, Mr. Blum stated that the ex-BCCI official's, quote: "motives are suspect, and some of his information is secondhand," closed quote. I would like to note for the record that this memorandum was included as part of the record before this subcommittee during Mr. Blum's August 1, 1991, testimony.

By the time the interviews had concluded, we were not only skeptical of the quality of the evidence provided by Mr. Blum's witness, we were also skeptical of Mr. Blum, himself. Mr. Blum told us that the upcoming termination of the subcommittee's investigation was sudden, unexpected, and suspect. Mr. Blum claimed that someone on behalf of BCCI had gotten to, or paid off this subcommittee in order for it to terminate its investigation.

Mr. Blum was unable to offer any specifics, and frankly—and I want to emphasize this—we did not credit this allegation. I did not credit the allegation made by Mr. Blum that this subcommittee had somehow been gotten to or paid off.

Mr. Blum also wanted the Government to pay him for any future assistance to our investigation. He indicated that as a result of the termination of the subcommittee inquiry, he was about to lose his job and needed money. We declined to enter into that sort of relationship with Mr. Blum.

The reason why Mr. Blum's request for payments is relevant is because it caused us to examine more closely his actions and his information, as it properly would with any witness.

We were faced—we were presented with unsubstantiated allegations made by Mr. Blum, whose motives and credibility were suspect. When we spoke with—

Senator KERRY. Mr. Jackowski, I am sorry to interrupt you. Apparently, I have just been informed, we are down to 4 minutes on our vote. So we have to leave to go over there. So we will have to recess. And if you could try to—

Mr. JACKOWSKI. Yes, sir, I will.

Senator KERRY. Your concept of a summary appears to be a word-to-word recitation of the 20-some pages, which is a half an hour of testimony. And so if you could try, while we are gone, to figure out—we will get into all of it in the questioning.

Mr. JACKOWSKI. I do not doubt that, Senator.

Senator KERRY. I assure you that there will be plenty of opportunity for you to lay out every single bit of it. But if you could just try in the opening, to somewhat—that would leave us more time to ask questions and have a dialog on it.

So we will stand in recess until we return.

[A brief recess was taken.]

Senator KERRY. The hearing will come to order. Mr. Jackowski, you were in the process of summarizing. [Laughter.]

Mr. JACKOWSKI. I have followed the court's instructions, your honor. [Laughter.]

Senator KERRY. So we will have a couple of more minutes to do so, and hopefully my colleague will get back here and we will proceed.

Mr. JACKOWSKI. Yes, Senator. Questions have been raised with respect to what the Government did or did not do with the information provided to it by Mr. Blum and the ex-BCCI officers. Notwithstanding the quality of the information, the finite resources available to us, and our substantial pretrial and discovery obligations, we pursued the information. A grand jury investigation was opened predicated on this information, as well as certain statements made by Amjad Awan concerning First American Bank vis-a-vis BCCI to Mr. Mazur in the course of the undercover operation.

That investigation, that is the grand jury investigation, continued until early October 1989 when, due to the lack of other available leads and the press of the upcoming trial, it was temporarily suspended. Where, as Mr. Mazur put it, a timeout was taken relative to this investigation pending the completion of the trial and the sentencing of the individual defendants.

A final criticism I would like to address is the allegation that there have been a lack of immediate results as a result of the Department's BCCI investigations. The Department of Justice does not indict on rumor or gossip or innuendo or hearsay and second-hand information. The Department indicts when we have admissible evidence. That is the standard which we applied in the middle district of Florida, with respect to our investigation and prosecution. And that is, in fact and I know this, the standard which the Department of Justice is applying across the board as a whole, with respect to the entire BCCI matter. That concludes the summary of my prepared remarks.

[The prepared statement of Mark Jackowski follows:]

PREPARED STATEMENT OF MARK V. JACKOWSKI

Mr. Chairman, my name is Mark V. Jackowski. I have been an Assistant U.S. Attorney in the District of Colorado since January 1991. From January 1985 until January 1991, I was an AUSA in the Middle District of Florida. While in Tampa, I was assigned to that office's Organized Crime Drug Enforcement Task Force ("OCDETF") section, where I handled major narcotics and drug money laundering cases.

I am here today because I was the lead prosecutor on the Tampa-based investigations and prosecutions known as Operation C-Chase, which included the prosecutions of BCCI and its officers. I have personal knowledge of, and participated in, virtually all of the decisions made by the Middle District of Florida concerning the BCCI prosecution.

I am aware of the criticisms of the Tampa prosecution, and I believe they are incorrect and unfair. During the course of my testimony, I will indicate how and why certain decisions were made in the course of that investigation and prosecution.

OPERATION C-CHASE

During the early summer of 1986, the U.S. Customs Service initiated a drug money laundering investigation which eventually came to be known as Operation C-Chase. The operation began with the introduction by a confidential informant of an undercover agent to a narcotics money launderer from Medellin, Colombia. This soon led to the introduction of the undercover agent to other money launderers.

In December 1986, two undercover agents met with Gonzalo Mora, Jr., a Medellin-based narcotics money launderer in the Tampa area. The undercover agents and Mora initially arranged for the agents to pick up U.S. currency stemming from cocaine sales and to repatriate the funds to Colombia. The undercover agents made several pickups of drug money in various U.S. cities, and the funds were transferred back to the narcotics traffickers in Colombia.

During February 1987, Robert Mazur, one of the undercover agents, determined that it would be useful to the undercover operation to be able to offer to the traffickers the services of an international bank with facilities in Latin America. At that time, there was an agency of BCCI in Tampa, FL. Mr. Mazur made arrangements to open an account at BCCI in the name of a front company.

Between February and May 1987, the undercover agents continued to assist traffickers in the laundering of drug money. During this time, currency belonging to several of Mora's clients was picked up in Miami, Los Angeles, and New York.

In early May 1987, Operation Pisces, a DEA undercover money laundering operation, was taken down. As a result, Mora and certain of his associates raised questions as to whether the undercover agents were in fact, federal agents. It was not until August 1987 that Mora and his associates were satisfied with the bona fides of the agents, and the agents' undercover business resumed and, indeed, grew.

In September 1987, Mora informed the undercover agents that he had acquired a new major client—whom he did not identify—and that the client wanted his funds repatriated to him via a Panamanian (rather than a United States) bank. Mr. Mazur had such a bank available: BCCI. In July 1987, Mr. Mazur had opened an undercover account at the Panama City, Panama branch of BCCI.

Beginning at the end of October 1987, and continuing through November 1987, undercover agents in Detroit picked up approximately \$2.3 million from a drug trafficking and laundering organization operating on behalf of the Medellin Cartel. These funds were deposited in the form of currency in undercover accounts with co-operating U.S. banks and subsequently wire transferred to the undercover account at BCCI in Panama City. Once the funds were received in the BCCI account, they were rapidly withdrawn by Mora's new client.

The nature and extent of the transactions in this account did not go unnoticed by officials within the Panama City branch of BCCI. On November 24, 1987, Syed Aftab Hussain, an operations officer at the Panama City branch, informed Mr. Mazur that BCCI was a "full service" bank and proposed that he meet with Mazur personally.

Mr. Mazur and Hussain met in Miami during early December, 1987. During the course of these meetings, Mr. Mazur told Hussain that the source of his clients' funds was cocaine trafficking in the United States. Rather than refusing to deal with Mr. Mazur, Hussain made recommendations to enable Mr. Mazur to better launder his clients' funds. Hussain also told Mr. Mazur that, due to the fact that Hussain was stationed in Panama and Mazur operated out of the United States, it would be useful for Mazur to have a contact at the Miami office of BCCI.

Just before Christmas 1987, Hussain provided the name of Amjad Awan to Mazur as a contact in Miami. In January 1988, Mazur met with Awan, Hussain, and Akbar A. Bilgrami, another BCCI-Miami banker, in Miami and made arrangements through Awan and Bilgrami to launder money via BCCI Panama and a BCCI subsidiary in Switzerland known as BCP.

In March 1988, my office received its first contact from Jack Blum, then an investigator for this subcommittee, concerning BCCI. Mr. Blum advised me of the subcommittee's investigation of drug trafficking and money laundering in Panama. He informed our office that the subcommittee had authorized and intended to issue subpoenas to two BCCI officers stationed in Miami, Amjad Awan, and S.M. Shafi. We informed Mr. Blum that we were in the midst of an undercover investigation concerning BCCI. Based on our request, Mr. Blum agreed to hold off the issuance of the Senate subpoenas for a period of time.

The investigation continued. Between December 1987 and March 1988, millions of dollars in U.S. currency, representing the proceeds of cocaine sales, were picked up in Detroit and New York. These funds were laundered through BCCI Panama, BCCI Luxembourg, and BCP Switzerland as a result of the knowing participation of Awan, Bilgrami, and Hussain. During late March 1988, the undercover agents met in Costa Rica with Mora and a representative of his new major client, who still remained unidentified. During this meeting, an expansion of the undercover agents' relationship with the client was discussed, including the use of BCCI's facilities in Europe to further the client's objectives. Subsequent to the meeting, Mr. Mazur made arrangements with Awan and Bilgrami to travel to Europe in order to establish relationships with additional BCCI officials in Paris and London. Mora's new client also agreed to send representatives to Paris to meet with the undercover agents and BCCI officials to discuss an expansion of the client's relationship with the bank.

Between May 20 and 25, 1988, Mr. Mazur and other undercover agents met with three BCCI Paris officials: Nazir Chinoy, head of BCCI's French-Africa region; Ian Howard, BCCI Paris' Branch Manager; and Sibte Hassan, an aide to Chinoy. These meetings were the result of referrals by Awan and Bilgrami. During the course of

these meetings, the new BCCI players were informed of the source of the funds and agreed to facilitate the transactions. The bankers also met with the client's representatives. By this time, the client had been tentatively identified as "Don Chepe," of Medellin, Colombia. "Don Chepe" was described by his representatives to be a major cocaine importer, distributor, and launderer. The bankers satisfied the concerns of "Don Chepe's" representatives about BCCI. The representatives, Santiago Uribe, a lawyer from Medellin, Colombia, and Rudolph Armbrrecht, an aircraft broker, agreed to place \$1 million in the form of a certificate of deposit with BCCI Paris as a test of the bank's capabilities. The undercover agents did not know at the time that "Don Chepe," whose true name is Gerardo Moncada, had been doing business with the Colon, Panama, branch of BCCI since 1985. As a direct result of Operation C-Chase, Gerardo Moncada was identified as being a ranking member of the Medellin Cartel.

After the Paris meetings, the undercover agents travelled to London and met with Asif Baakza, the head of BCCI's Corporate Unit in London. This meeting, again the result of a referral by Awan and Bilgrami, ended with Baakza's agreement to launder cocaine proceeds.

As a result of the European contacts with Armbrrecht and Uribe, undercover agents began to pick up massive quantities of Moncada's cocaine proceeds in New York. These pickups continued until late July 1988 when they stopped due to two intervening events. These events dictated that the takedown of Operation C-Chase not be extended past October.

First, at the end of June 1988, the Customs Service seized 110 kilograms of cocaine from Moncada's operatives in Detroit, and arrested the operatives. The arrests of the operatives triggered a chain of events which, due to the discovery provisions of the Federal Rules of Criminal Procedure, threatened to terminate the undercover investigation. As you know, defendants have the right to obtain the evidentiary basis of the charges against them from the government. In this instance, the arrests were based on information developed from the C-Chase undercover operation. As a result of discussions between my office, the U.S. Attorney's Office in Detroit, and the Department of Justice, we agreed that prosecutors in Detroit would seek lawful delays in the discovery process through October 1988. Although these delays were granted by the court in Detroit, the information clearly would have to be released soon thereafter.

Second, during mid-July 1988, Moncada organization operatives conducted counter-surveillance of currency pickups by undercover agents in New York and discovered persons they believed to be law enforcement agents watching the pickups.

The Detroit seizure and arrests, coupled with the "burned" New York surveillance, caused the Moncada organization to suspect that Mr. Mazur and his associates were in fact, federal agents. As a result of these events, several things happened.

First, the currency supply from the Moncada organization dried up. Second (although this was not learned until long after the indictment), the Moncada organization removed Mr. Mazur's signatory power on the \$1 million certificate of deposit account, which meant that Mr. Mazur no longer had the authority to transfer those funds. Third, Mr. Mazur was informed by Armbrrecht during the course of an early August meeting at a Miami motel that he was suspected of being a federal agent, and therefore business with him had been suspended by the Moncada group. Mr. Mazur was told that if he was an agent, there was "no hole in the world deep enough to hide in." In short, the undercover investigation seemed to be heading rapidly toward a conclusion.¹

By the summer of 1988, a decision had been made to terminate the C-Chase investigation with a phony "wedding" between Mr. Mazur and an undercover agent posing as his fiancée. The ruse of a wedding was intended to lure BCCI officers and others into the United States in order to effect their arrests. A "wedding" date of October 9, 1988, was set, and plans were made to coordinate simultaneous arrests and searches in London, Paris, and the United States.

Accordingly, in August 1988, representatives of British and French Customs attended meetings in Tampa to address some of the coordination issues regarding the takedown.² At the time, it was contemplated that Mr. Mazur and other undercover

¹ During mid-August 1988, Mr. Mazur also learned from Awan and Bilgrami that the Senate had in fact issued subpoenas to the bank which called for records of accounts maintained at the bank by Panamanian corporations as well as others.

² We agreed that, should Mr. Baakza be arrested in the United Kingdom, he would be prosecuted by British authorities on the basis of information developed by the American undercover

agents would travel again to Europe during September 1988 in order to acquire additional evidence.

However, in early September 1988, a 1,200 kilogram load of cocaine secreted in anchovy cans was seized by the Customs Service and the Drug Enforcement Administration in the Port of Philadelphia based on information obtained through the C-Chase investigation. Roberto Alcaino, the principal behind this load, was arrested at LaGuardia Airport in New York following the seizure. This seizure and the resulting arrests made it even more doubtful that the undercover operation would reach its planned October takedown date.

Nevertheless, on the heels of this seizure, Mazur and his undercover "fiancee" travelled to Europe. They met with Akbar in London on September 20 and 21, 1988. During the course of these meetings, after Akbar was informed that the source of the funds was narcotics trafficking, he agreed to assist in their laundering. From there the agents travelled to Paris and again met with Chinoy, Howard, and Hassan. Additional evidence relevant to their culpability was acquired during the course of these meetings. The undercover agents also took steps to ensure that these individuals attended the undercover wedding. The agents returned to the States by the end of September.

THE TIMING OF THE TAKEDOWN OF C-CHASE

I am aware that questions have been raised with respect to the timing of the takedown. Indeed, it has been suggested that the takedown was predicated upon non-law enforcement considerations.

To my knowledge, those claims are entirely false. Back in February 1988, an Operation C-Chase coordination meeting had been held in the Tampa area. That meeting was attended by agents and prosecutors from districts around the country in which the undercover activity was being conducted. The Customs Service, the lead agency in the investigation, had determined by that time that the operation should last no longer than the late summer or early fall of 1988.

The reasoning behind the takedown date was as follows:

First, past undercover operations had given rise to concerns that they were unduly facilitating criminal activity, by laundering large sums of money without obtaining commensurate results. The Customs Service and our office agreed that C-Chase would attempt to launder the minimal amount of funds consistent with the evidentiary goals of the investigation. In other words, if there came a point in the investigation where we continued to launder funds on behalf of old clients, without developing evidence against additional defendants, we would attempt to terminate the operation.

Second, it was contemplated in February 1988, and ultimately proved correct, that we would be able to make a case against culpable BCCI officials and the bank by the time of the takedown.

Third, by October 1988, the undercover agents had been operating undercover for almost 2 years. That is an extremely long time to be engaged in such stressful and dangerous activity.

In any event, the operation was fortunate to last until October 1988, because of the Detroit and Philadelphia seizures and the "burned" New York surveillance.

THE TAKEDOWN OF C-CHASE

The phony "wedding" between Robert Mazur and the undercover agent posing as his fiancée was scheduled for Sunday, October 9, 1988. In order to separate the targets from their families, and to effect the arrests securely, a "bachelor party" was scheduled for the previous day, Saturday, October 8.

The ruse proved highly successful. Several BCCI officers (Awan, Bilgrami, Husain, Howard, and Hassan), the Colombian money launderers, Mora, certain of his associates, and certain of Alcaino's associates were all arrested at the "bachelor party" on October 8. Two other defendants, including Moncada's operative Armbricht, were arrested that weekend in Miami.

Following the "bachelor party" arrests, a search was conducted of the bank's Miami offices. Simultaneous searches were conducted at the bank in Paris, at the bank in London, and at various residences in Great Britain. Three more BCCI officials, Baakza, Akbar, and Chinoy, were apprehended in Great Britain at the same time.

agents. It was also agreed that if evidence was developed against S.Z.A. Akbar, he too, would be prosecuted in the United Kingdom. Akbar was, in fact, ultimately prosecuted and convicted by British authorities.

LEAKS TO THE PRESS

At this juncture, I would like to address another issue that has arisen with respect to this case: the issue of leaks. Unfortunately, leaks to the press and others occurred.

At least one national television news organization, NBC, was informed of the existence and nature of the undercover investigation, prior to its conclusion, by high-level officials of the U.S. Customs Service. These officials were apparently acting on the instructions of then-Commissioner William Von Raab.³ The first such disclosure occurred at a dinner meeting between Customs representatives and an NBC News reporter at the Four Seasons Hotel in Washington, DC, in September 1988, about 1 month prior to the takedown. NBC and one other national news organization, CBS, had television cameras waiting at the Customs Service office in Tampa after the "bachelor party" arrests.

It is, to say the least, regrettable that the lives of the undercover agents—one of whom, Mr. Mazur, had already been threatened with death by the narcotics traffickers with whom he was transacting business—were thereby jeopardized. In fact, Mr. Mazur and other agents continued to meet and speak with targets of the investigation in their undercover capacities for several weeks after the nature of the undercover operation had been disclosed to the news media.

Jack Blum, an investigator for this subcommittee, also found out about the impending takedown in advance. In a memorandum dated October 7, 1988—the Friday before the arrests and searches—Blum describes his knowledge of the impending takedown:

During the next 3 days more than 80 people associated with the Bank of Credit and Commerce International and related companies will be arrested for money laundering and drug dealing. The arrests will be in more than a dozen locations here and in Europe and have been carefully coordinated.

At the same time the bank itself and a variety of accounts which have been identified as drug accounts will be seized here and in London and Paris. * * *

The Customs operation is the result of a 2 year sting operation. * * *

We should take credit for fingering the situation * * *

Mr. Blum also obtained a copy of draft Customs Service press materials based on confidential, internal (as well as inaccurate and outdated) Department of Justice memoranda at some point prior to the unsealing of the indictment. Mr. Blum provided copies of these materials prior to the unsealing of the indictment to Robert A. Altman and his partner, John F. Kovin, of the Clifford & Warnke law firm. These materials later formed the basis of numerous pretrial motions which questioned the sufficiency of the government's proof and its conduct of the undercover investigation. Although the government ultimately prevailed, substantial time was required to respond to the motions.

THE ADEQUACY OF THE TAMPA CHARGES

Another question has been raised regarding the charges brought against the bank and its employees in the wake of the takedown. Former Customs Commissioner Von Raab testified before this subcommittee on August 1, 1991:

I was annoyed at the time of the arrest in Tampa that there were not more significant charges brought against higher level BCCI officers and more significant charges brought against BCCI as a corporation * * *.

Although I was the principal prosecutor on this case, I had never heard Mr. Von Raab's alleged dissatisfaction concerning the nature of the charges or the identity of the defendants until his testimony before this subcommittee. In fact, I met with Mr. Von Raab on the evening of October 10, 1988, and he congratulated me on my efforts in the case. Furthermore, Mr. Von Raab was a principal speaker at the press conference on October 11, 1988, when the indictment was unsealed. At that time, Mr. Von Raab called Operation C-Chase "the most important money laundering case in U.S. history."

³ Statement of the U.S. Department of the Treasury Regarding Its Operation C-Chase and the Bank of Credit and Commerce International, appended to letter from Assistant Secretary of the Treasury (Enforcement) Peter K. Nunez to Representative Charles E. Schumer, dated October 18, 1991, at 9 (the premature disclosure of the ongoing undercover operation to the press and subsequent press coverage was "coordinated through Customs headquarters and at the direction of then-Commissioner Von Raab").

⁴ Memorandum from Jack A. Blum to Senator John F. Kerry dated October 7, 1988, entitled "BCCI: The Takedown, Background and Talking Points." The memorandum was made part of the record of this subcommittee on August 1, 1991.

Mr. Von Raab's complaint that higher-up BCCI officers were not indicted is completely misplaced. Simply put, we indicted every BCCI officer who we had a reasonable chance of convicting at trial.

CONTACTS WITH JACK BLUM

Following the indictment, the attorneys for the bank and the individual defendants began to file hundreds of motions on every conceivable topic, many of which were very complex. At the same time, we were preparing to supersede the indictment to add additional allegations and defendants. In the midst of these efforts, on March 23, 1989, Jack Blum contacted the Customs Service. Mr. Blum indicated that, through a source, he was privy to information with respect to BCCI that he was willing to share with us. Mr. Blum also indicated that his position as an investigator with this subcommittee would be terminated by the end of March, 1989, because the subcommittee was concluding its hearings. Through Mr. Blum and his source, we made arrangements to meet with an alleged witness to BCCI wrongdoing.

A series of meetings, which were taped at my direction, occurred in Miami on March 28 and 29, 1989. During the course of these meetings, the alleged witness, who was an ex-BCCI official, provided information concerning alleged illegal activities engaged in by BCCI. Thereafter, on March 30, 1989, the ex-BCCI official travelled to Tampa with Mr. Blum and was interviewed by me and agents working on the matter.

The ex-BCCI official, who had been portrayed by Mr. Blum as having direct first-hand knowledge concerning various matters, either didn't have such information or was unwilling to admit it. The ex-official's information appeared to be primarily hearsay, gossip, rumor, and innuendo. He was also unwilling to testify at any public proceeding. We were obviously disappointed, because Mr. Blum had led us to believe that the witness could provide first-hand information relative to the bank's involvement in money laundering and other matters.

It was our assessment that the ex-BCCI official had mainly provided secondhand information, and it was apparently Mr. Blum's view as well. In a memorandum dated March 22, 1989, from Jack Blum to Senator Kerry, Mr. Blum stated that the ex-BCCI official's "motives are suspect and some of his information is second-hand."⁵

By the time the interviews had concluded, we were not only skeptical of the quality of the evidence provided by Mr. Blum's witness, we were also skeptical of Mr. Blum himself. Mr. Blum told us that the upcoming termination of the subcommittee's investigation was sudden, unexpected, and suspect. Mr. Blum claimed that someone on behalf of BCCI had "gotten to" or paid off this subcommittee in order for it to terminate its investigation. Mr. Blum was unable to offer any specifics, and, frankly, we did not credit this allegation.

Mr. Blum also wanted the government to pay him for any future assistance to our investigation. He indicated that, as a result of the termination of the subcommittee inquiry, he was about to lose his job and needed money. We declined to enter into that sort of relationship with Mr. Blum. The reason why Mr. Blum's request for payments is relevant is because it caused us to examine more closely his actions and his information, as it properly would with any witness.

We were thus faced with unsubstantiated allegations made by Mr. Blum, whose motives and credibility were suspect. When we spoke with Mr. Blum's witness, he fell far short of our expectations. Nevertheless, we commenced a separate grand jury investigation into certain of these areas. Furthermore, we pursued this information despite the fact that a second ex-BCCI official brought to us by Mr. Blum during May, 1989, turned out to be an even worse witness than the first. Even Mr. Blum acknowledged that the second individual did not turn out to have the type of information which he represented to us the witness would have.

Questions have been raised with respect to what the government did or did not do with the information provided to it by Mr. Blum and the first ex-BCCI official. Notwithstanding the poor quality of the information, the finite resources available to us, and our substantial pretrial and discovery obligations, we pursued the information. A grand jury investigation was opened predicated on this information as well as the statements made by Amjad Awan in the course of the undercover operation. That investigation continued until early October 1989, when, due to the lack of other available leads and the press of the upcoming trial, it was temporarily sus-

⁵ This memoranda was included as part of the record before this subcommittee during Mr. Blum's August 1, 1991, testimony.

pending pending the completion of the trial and the sentencing of the individual defendants.

RESOURCES DEVOTED TO C-CHASE

I would now like to address the issue of the investigative resources devoted to the C-Chase prosecutions. The greatest demands on those resources arose out of the need to prepare transcripts of thousands of taped undercover conversations.

Early in the investigation, we made the decision to tape as many conversations as possible with the targets of the investigation. By the time of the October takedown, undercover agents had taped more than 2,000 meetings and telephone conversations with numerous individuals. From the inception of the investigation through early 1988, a majority of those undercover conversations were transcribed or summarized.

Beginning in early 1988, however, when the investigation began to focus on the BCCI bankers, we in effect "overran our supply line" concerning the transcripts as a result of the extensive undercover activity the agents were engaged in.

Because of the volume of the tapes, the undercover agents were no longer able to transcribe the tapes in a timely manner. This left us with a choice either to use outside transcription services, or to require the undercover agents to transcribe the tapes as they were generated, at the risk of foregoing undercover activity. I made the decision that it was more important that the undercover agents engage in undercover activity than it was for them to transcribe tapes. I decided that the tapes could be transcribed and made available in discovery after the case was indicted.⁶

The obvious question is why did we not utilize non-government transcription services before the takedown. The answer to that is simple: it was my view that the need for secrecy in this investigation was paramount, and I did not want to risk compromising the investigation and putting the agents' lives at risk by providing these tapes to third parties. It is well-known within the law enforcement community that narcotics traffickers utilizing the services of private investigators, attorneys, and others are able to ferret out information concerning ongoing drug investigations. The risk of compromise was not one that I was willing to take.

In any event, the transcription process started in earnest shortly after the end of the investigation. This process, given the poor audibility quality of the tapes (most of which needed to be enhanced in order to be heard) and the heavily-accented English of the BCCI defendants, was tedious. This process was the subject of much discussion and dispute between my office and the Customs SAC in Tampa, as well as within Customs itself. Unfortunately, there were only four or five agents who were willing and able to do this arduous work.

SAC-Tampa was well aware that the transcription process was causing us discovery problems with the District Court. This problem came to a head during the spring of 1989, and continued thereafter. Although the disputes were ultimately resolved, in many instances suitable transcripts were not finalized until the day the underlying tapes were played in Court. Nevertheless, due to the efforts of Mr. Mazur and the small cadre of agents assisting him, the ultimate high quality of the transcripts was recognized by the trial judge. Without the transcripts, an effective prosecution would not have been possible.

THE PLEA AGREEMENT

As the subcommittee knows, the Tampa U.S. Attorney's office entered into a plea agreement with BCCI in January, 1990, on the eve of trial. This agreement has received much criticism, most of it ill-informed. For instance, Mr. Von Raab testified before this subcommittee on August 1, 1991, that "I think it was a shameless agreement. It had a number of terrible aspects." Mr. Von Raab acknowledged, however, that "I don't know the details or technical side of it."

I do know the details and technical side of it, and they are as follows:

1. The purportedly "shameless" plea agreement did not prevent the Department of Justice from prosecuting BCCI. It only bound the Middle District of Florida from prosecuting BCCI for matters under investigation at the time of the agreement. The Department of Justice in Washington and every other U.S. Attorney's Office in the country is free, and has been free at all times, to indict and prosecute BCCI.

2. The plea agreement precludes *no* federal prosecutor *anywhere* from indicting *any* employee, officer, or director of BCCI for *any* criminal offenses.

⁶ This is not to say, however, that we were unaware of the nature of the conversations. I received timely reports of the undercover contacts with the targets from Mr. Mazur; in addition, an IRS agent listened to relevant portions of key tapes to enable us to prepare the indictment and search warrant affidavits.

3. The plea agreement resulted in the largest monetary penalty *ever* imposed upon a corporate defendant for money laundering. This \$15 million penalty did not consist, contrary to Mr. Blum's and Mr. Von Raab's assertions before this subcommittee, of the profits that the agents had "created in the drug deal." It was the bank's money. The bank's profits as a result of engaging in transactions with the undercover agents did not exceed \$250,000.

4. The plea agreement resulted in an admission by BCCI that money laundering of narcotics proceeds was among its corporate policies.

5. The plea agreement resulted in the bank pleading guilty to *every*, and I repeat, *every* readily provable count in the indictment. The bank pleaded to 33 substantive money laundering counts, as well as a count of conspiracy to launder drug money. The only count the bank did not plead guilty to was a narcotics conspiracy count. This was as a result of a pre-trial order entered on December 5, 1989, by the trial judge which I understand Mr. Genzman's testimony will address.

6. The plea agreement has been criticized for not putting the bank out of business. As the trial judge indicated when he accepted the plea agreement and sentenced the bank on February 5, 1990, federal criminal law makes no provision for revoking the bank's license to do business in the United States. As this subcommittee knows, the decision to permit a foreign bank to do business in the United States rests with regulatory authorities.

7. The plea agreement has also been criticized for permitting the "most serious offender," the bank, to escape with a light punishment. First, as I have related, the bank did not escape lightly. They paid a \$15 million penalty and admitted that they had a corporate policy of laundering drug money, forever tarring the bank with that admission. Second, they agreed to cooperate with the government. Unfortunately, due to the ongoing nature of the investigations which their cooperation has impacted, I am unable to disclose the strength of that cooperation. Third, the publicity stemming from the bank's prosecution had an adverse economic impact on the bank.⁷ Finally, the Department of Justice was and is free to investigate and prosecute individuals as well as the bank itself for any and all crimes. The plea agreement did not preclude the Middle District of Florida from returning a RICO indictment against other high level officials of the bank, Colombian drug traffickers, and others, which was unsealed on September 5, 1991. In fact, the RICO enterprise in that prosecution was defined to include BCCI.

As I have testified, the plea agreement did not preclude the government from prosecuting the bank employees who were charged in the indictment. As you know, we tried those defendants, convicted them, and they received serious sentences. Questions have been raised as to why we accepted a plea from the bank and not from the individual defendants. We in fact attempted to enlist the defendants' cooperation, but were unsuccessful in doing so. This was due to a number of factors:

There was a fundamental difference of opinion between the government's view of the case and the defendants' attorneys' view of the case. We viewed the bankers as being no different than drug dealers. The defense attorneys viewed their clients as white collar criminals. My office's plea agreement policy in drug cases gave the individual defendants, as with any defendants similarly situated, three choices: go to trial; plead guilty to the entire indictment; or plead guilty and cooperate with the government in the hopes of receiving a reduced sentence. However, in this case, the individual defendants, with one exception, refused to give proffers of what their testimony and knowledge would be. They also had unrealistic expectations as to the length of prison time they were likely to serve, even with cooperation. Finally, their attorneys convinced them that they could beat the charges. As a result, we never consummated plea agreements with any of the individual defendants.

CONCLUSION

The final criticism that I would like to address is the so-called lack of additional, immediate results in the BCCI matter. The Department of Justice does not indict on rumor, gossip, innuendo, hearsay, and secondhand information. We indict when we have admissible evidence. I can assure you that the Department is moving ahead rapidly in this matter. When sufficient admissible evidence to convict has been accumulated as a result of the various BCCI investigations, then, and only then, will indictments be sought. That is the standard which is applied in the Middle District

⁷ See written testimony of J. Virgil Mattingly, Jr., General Counsel of the Board of Governors of the Federal Reserve System, September 13, 1991, before the House Committee on Banking, Finance and Urban Affairs, at 14.

of Florida and that is the standard which the Department of Justice will apply across the board.

Senator KERRY. Now, let me try to find a beginning here, amidst these long summaries. In a sense, gentlemen, the two of you have come in and given, I think obviously, plausible, and intelligent, and credible sense from your perspective about what you did, and why you did it, and how you did it.

The question that leaps to my mind, and I suspect in the minds of some other observers, is whether you are seeing the forest for the trees. I think Mr. U.S. Attorney Genzman you said, and I quote you: "Tampa was a money laundering case." And that is the way you viewed it. But to me and a lot of other people, and I think to Bob Mazur according to his testimony today, it was much more than a money laundering case.

It was a case where information was surfacing about the illegal ownership of banks in the United States, about our arms, about broad-based criminal activity. And the sense a lot of people have is that, yes, while you can come here and say indeed, this was very credible and we achieved a lot, as Bob Mazur himself said, it achieved far less than it could have, and that some people think should have. Now how do you respond to that?

Mr. GENZMAN. Let me start, Mr. Chairman, by saying that we had a takedown that required the Tampa case to focus on money laundering. If we had not, I would be at the witness table today explaining why we went up every rabbit trail we could find, and ignored what we had in front of us, which was the money laundering case. And let me add, this one of the first, if not the first—

Senator KERRY. But who suggested that you ignore that?

Mr. GENZMAN. If you let me proceed, I was just going to get to that Mr. Chairman. We could not ignore what we had before us, which was a money laundering case. And contrary to testimony that you heard in August, this case was not brought to our office wrapped in a ribbon ready to go. There was an incredible amount of work that had to be done. We had to give priority to that case. We had to abide by the judge's timetable, the Speedy Trial Act discovery requirements, but we did not ignore these other allegations as they came in.

Senator KERRY. Did you write a letter to the Attorney General saying Mr. Attorney General, we have an extraordinary case here which involves the illegal ownership of the bank, which involves many more millions of dollars than we have yet proven. And we need people down here in order to be able to do this.

Mr. GENZMAN. I could show you a stack of letters and memos that we have written, that I have written since I became U.S. attorney right around the time of the takedown, which asked for additional resources.

Senator KERRY. Did you get them?

Mr. GENZMAN. Not just for the BCCI case, but for a number of other cases.

Senator KERRY. Did you get them for the BCCI case?

Mr. GENZMAN. Yes, as a matter of fact. Right, within months we received, I believe, five asset forfeiture attorneys, at least two of which were working very regularly on BCCI. And we also received

some additional drug resources. And as soon as we were able to get those people hired, we put them to work.

Senator KERRY. Did they specifically go to work on BCCI?

Mr. GENZMAN. Well the people that we bring into the door—

Senator KERRY. Did those people that you requested specifically go to work on BCCI?

Mr. GENZMAN. Some of the asset forfeiture people did, but you have to understand that when you bring new people into the door, you rarely give them one of your biggest cases, if not the biggest case in the history of your office. We reassign people internally as we bring in newcomers. And every time Mr. Jackowski, or his colleagues, would come to us and say they needed help either on asset forfeiture or on motions or on any of the work they were facing, we addressed those needs, and they were taken care of. And I don't think anyone has criticized the attorney resources that were applied to this case.

Senator KERRY. That is not the issue, believe me it is not. And I want to make that very clear. I never issued one word of criticism about the attorneys in the case, or others.

Mr. GENZMAN. Can I respond further? You also mentioned—your question referred to whether new people were coming on board to work on the BCCI case, and I think that reflects a problem that needs to be avoided. And that is, you can't have new people coming in the door and picking up work on such a big case. As a matter of fact, putting a small army of experienced people on a case of this type can often be self-defeating.

Senator KERRY. I do not disagree with that, but that just begs the question as to why your lead attorney, Mr. Jackowski, went out to Denver and why Mr. Mazur quit.

Mr. GENZMAN. Why don't you ask Mr. Jackowski? I'm sure he'll be pleased to answer.

Senator KERRY. We will get to there, but why do you not say, gee, we need you here. I do not want to assign you to Denver right now. You are on the biggest case in the country.

Mr. KEHOE. Well, I had numerous discussions with Mr. Jackowski about him staying in the middle district of Florida. Not only for this, but for other reasons. The primary reason, Senator, being that he is one of the best prosecutors that I've ever seen in my life, and he had other personal business. And I will let Mr. Jackowski speak for himself, but we had numerous discussions about that.

Mr. JACKOWSKI. Senator, the fact of the matter is that, No. 1, I decided to transfer to Denver. No one decided to transfer me to Denver, as has been suggested in the New York Times. That's No. 1, and No. 2, the reasons for my decision to go to Denver were entirely personal. No. 3, as Mr. Kehoe stated, Mr. Kehoe on numerous occasions, sir, attempted to, shall we say inveigle me to stay in Tampa, as did Robert Genzman. These gentlemen wanted me to stay in Tampa. I had a discussion last week with Mr. Kehoe in which Mr. Kehoe said why don't you come back to Tampa. So I have been asked to, No. 1, stay in Tampa and No. 2, I was to return to Tampa. And my reason for going to Denver was personal, sir.

Senator KERRY. Now with respect to your feelings about the case, is it not a fact that you were unhappy with the pace and scope of the investigation?

Mr. JACKOWSKI. No, that is not correct, Senator.

Senator KERRY. I think there was a memo in which you—and certainly the written memo by Bob Mazur seemed to suggest that you agreed with his perceptions of lack of resources, and the unhappiness.

Mr. GENZMAN. While he is looking, Senator, can I respond to a part of that question.

Senator KERRY. This is Mr. Mazur's memo, and I read from it. It says, the outcome of the case, while notable, was considerably less than what it could have been. The indictment of additional defendants and the seizure of substantially more drug proceeds was lost directly as a result of the application of inadequate resources by blank to the investigation. This opinion is shared by individuals meaningfully involved in the successes preserved within Operation C-Chase, including the lead prosecutor, see attachment A, memo of Mr. Jackowski, page 4. So your own memo suggested that you were unhappy, you thought more could have been done.

Mr. JACKOWSKI. Sir, what I think you're doing is you're taking Mr. Mazur's memo and reading into it words that Mr. Mazur's memo—a certain unhappiness on my part with respect to the progress of the case. And I don't think that's correct. I will tell you what is correct, and I will tell you what I understood—

Senator KERRY. Before you do, and I am going to give you a chance to but before you do tell me, and I will give you the full opportunity to do so, are you saying that you did not hold the opinion that the outcome of the case was less than what it could have been? Did you hold that opinion?

Mr. JACKOWSKI. I'm going to answer your question.

Senator KERRY. Yes or no.

Mr. JACKOWSKI. I cannot answer the question yes or no, Senator. I have to answer in the following manner. My unhappiness with respect to the C-Chase investigation, and this was not with respect to the C-Chase prosecution, it related to the C-Chase investigation, was that there were a number of documents that were seized as a result of searches conducted in Miami and other places.

It was my view that included within those records were leads to other narcotics traffickers and money launderers. It was my further view, as of the time I wrote my memorandum, which was at the end of January 1991, that those documents had not been adequately reviewed to pursue all of those leads. That was the nature of my unhappiness, Senator.

Senator KERRY. Well, I interpret that, and correct me if I am wrong, that if the leads had been followed up more would have been produced. So ergo, it did not produce all that it could have.

Mr. JACKOWSKI. Senator, what I think you are trying to do is—

Senator KERRY. Look, there were a lot of different—I mean I am dealing with some of the memos that I have here. Let me ask you this—

Mr. JACKOWSKI. What you're doing is you're asking me about a statement that Robert Mazur wrote. That statement refers to a

memorandum that I wrote, and what I'm trying to do is explain what I meant when I wrote that memorandum.

Senator KERRY. Let me ask this, is there any reason the committee should not see the memo you wrote?

Mr. JACKOWSKI. I believe the committee has seen a redacted version of the memo.

Senator KERRY. Not of the memo that you wrote. I do not believe so. We have not seen that.

Mr. KEHOE. Senator, the vast majority of Mr. Jackowski's memo, and I believe that it is the memo that Mr. Jackowski addressed to me, among others—

Mr. JACKOWSKI. That is correct.

Mr. KEHOE [continuing]. Is the memo that addresses our format for our continuing investigation. This was a memo that was written to me, among others, when Mr. Jackowski was about to leave. It directly addresses ongoing matters as to what he thinks we should do, and the next target level that we should move to. On that basis, Senator, I would object, with all due respect to the committee, of handing it over to the committee. Because it is an ongoing matter.

Senator KERRY. Which puts us in the inevitable sort of catch-22. You guys can sit there and say it is an ongoing investigation, and we are the committee of oversight to determine whether or not it is. But we cannot see any documentation that would support that.

Mr. KEHOE. Senator, there is documentation to support that. The most recent documentation to support is a September 1991 indictment. The next level of indictments that—

Senator KERRY. September 1991 indictments, you are referring to the Federal Reserve case?

Mr. KEHOE. I am referring to the indictment that the middle district of Florida indicted Mr. Naqvi as well as Mr. Rizvi, and a variety of other people on a RICO, and a RICO conspiracy. Now that is not the only matter that is contained in that particular memo that Mr. Jackowski wrote to me, if I recall correctly.

There is a continuing investigation going on to date, Senator, that is discussed in that particular memo. Now you ask if the Department of Justice, or the U.S. attorney's office, or the middle district of Florida has any proof. Well you need to take my word, you don't need to take my word, Senator, you need only to go to the docket sheet of the most recent indictment.

Senator KERRY. Well we can get into the question of the most recent indictment. I am not going to right now, but there are a lot of questions that arise in between that time period and now, some of which we will get into, many of which we will not have time to get into.

I do not take that most recent indictment as a statement of what did or did not happen between then and now. And there are many reasons why I do not, but I simply do not. And this particular—it seems to me that it ought to be possible since we have had no problem in getting whole pages delivered to us with nothing on them, to redact sufficiently that we are able to see what you said about your opinion it, but not obviously on the ongoing investigative aspect of it.

Mr. JACKOWSKI. Senator, that is not a decision that I made.

Senator KERRY. I know.

Mr. JACKOWSKI. I just want to say one thing. First of all, there are two components to my memorandum. One relates to ongoing matters which I believe, under tradition theories, this subcommittee would not be entitled to. The other relates to a criticism, and the criticism relates to going through the records. And I'm telling you under oath, that my criticism with respect to the records related to my belief that included within those records were transactions of other money launderers and narcotics traffickers. That's what I meant.

Senator KERRY. What about First American? Was that not of issue then?

Mr. JACKOWSKI. Not of issue, when? At the time I wrote my memorandum.

Senator KERRY. This particular time, yes.

Mr. JACKOWSKI. I think First American, sir, has been of issue since March 1988, No. 1. No. 2, I Senator, am not aware—Senator, I'm not aware that there are any—well let me put it to you this way—I am not aware of any materials included within the documents that came out of Miami which are directly relevant to First American. This is Mark Jackowski saying that. Mark Jackowski who has not reviewed all those records, Mark Jackowski who has not received a detailed report relative to that. That's what I'm telling you.

Senator KERRY. Relative to—

Mr. JACKOWSKI. The notion, or your question concerning whether or not there is anything in those records concerning First American, I don't believe so.

Senator KERRY. Well I am going to come back to that in a few minutes. Let me go back here for a second, if I can. Did any of you, at any time, receive information from Justice or anyone else from the CIA regarding their knowledge of the money laundering aspect of this?

Mr. JACKOWSKI. I did not.

Mr. KEHOE. I did not, Senator.

Mr. GENZMAN. I did not. Let me emphasize that Mark Jackowski was involved from the beginning of the prosecution side of the case. I came right before the takedown, and Mr. Kehoe came in early 1989, several months after the takedown.

Senator KERRY. If, and this is hypothetical, but if you had received a memorandum from the CIA, or directly from the Treasury saying to you BCCI secretly owns the largest bank in Washington, what would you have done in response to that?

Mr. KEHOE. May I answer that, Senator? I mean hypothetically, with the type of intelligence.

Senator KERRY. Well, I was asking the U.S. attorney.

Mr. KEHOE. I apologize.

Senator KERRY. I would just like to know from the U.S. attorney. You are in charge, it is your district. If you had received that information, what would you have done?

Mr. GENZMAN. We had other information regarding the First American issue. We were pursuing that other information that would have been referred to the people who were pursuing that particular issue.

Senator KERRY. Who was that?

Mr. GENZMAN. That was Mr. Jackowski and Mr. Rubinstein, and also I would think the investigators who were involved. And just emphasize, Senator, there was movement in that direction in early 1989. There was grand jury work in that regard. Because of the nature of the information we had—

Senator KERRY. Where was the grand jury work?

Mr. GENZMAN. In Tampa.

Senator KERRY. In Tampa.

Mr. GENZMAN. Yes.

Senator KERRY. Was that in response to the subpoena that was issued by Mr. Jackowski, is that what you are talking about?

Mr. JACKOWSKI. That is what Mr. Genzman is referring to.

Senator KERRY. You issued one subpoena, I believe.

Mr. JACKOWSKI. I don't believe it was one subpoena, sir. I believe it was more than one.

Senator KERRY. With respect to First American.

Mr. JACKOWSKI. I believe what we did is we received information pursuant to subpoena from Federal Reserve banks in Virginia.

Senator KERRY. But that was—the first subpoena was issued in 1989, which requested that information, correct?

Mr. JACKOWSKI. That is correct. And that grand jury investigation was predicated on the statements made by Juan to Mazur during the course of the undercover investigation. And also predicated on the information provided to us by Mr. Blum and persons whom he'd brought to our attention.

Senator KERRY. Would you say, Mr. Genzman, that it is your opinion now that there was a failure to communicate from whoever—from one agency to another, or whoever in Federal law enforcement received information about the secret ownership and the prosecutors, your prosecutors in Tampa who were making the drug case against BCCI?

Mr. GENZMAN. I can't say that there was a failure to communicate, Senator, in a situation where there was communication. We—when I say we, I'm talking about the C-Chase team—investigative agents did, in late 1988 within weeks of the takedown, contact by phone a representative of the Federal Reserve and then followed up that phone conversation with a meeting.

Senator KERRY. Well let me be clear here. CIA made a definitive determination in 1985, or earlier, that BCCI was owned—excuse me, they made the determination in 1985 that a previous ownership in effect had taken place. That was not communicated to you, is that correct?

Mr. GENZMAN. That is correct.

Senator KERRY. When you were the drug case—all I am trying to get at here is the process. I mean, we had the acting—at the time the acting director of the agency here, and he felt in retrospect, yes, we should have had some process here where there is an automatic catch basin for this kind of cross-tabulation of information, or something. And I am trying to get your sense of it as one of the field people, of whether or not you agree with that. You seem to disagree, notwithstanding the fact that he has readily acknowledged it.

Mr. GENZMAN. I seem to disagree with what point, Senator?

Senator KERRY. That somehow you did not get the information the Government had. I mean it is a matter of record, is it not?

Mr. GENZMAN. I've said so twice, and I'll say so a third time, we did not receive the information. Now you have me at a disadvantage because I didn't see that information. But I understand that that information is conclusory in nature. I don't understand it to be good admissible evidence in a courtroom. And I think other witnesses who have seen it and have analyzed it, including people from the CIA and from the Fed have said that. So whether we could have taken that and run with it, I think, is very debatable.

Senator KERRY. Well, Bob Morgenthau took it and ran with it.

Mr. KEHOE. Senator, let's back up exactly with what Mr. Morgenthau took and ran with. I mean first and foremost the Department of Justice will take information from any source whatsoever. Let's assume that. The second point with regard to, for instance, the First American/BCCI connection—Senator, you and I talked about this the other day, when we were just discussing the case.

As you know, we went back to 1978 and the CCAH takeover of BCCI through its shareholders. There were numerous rampant rumors about BCCI controlling First American. So when this came up in March 1988 or February 1988, in conversation with Bob Mazur, it was not a new issue. It was not a new issue in any way, shape, or form. Taking that issue from his mouth, or anybody else's mouth, and proving it are two different things.

The ideal thing would have been able to have Mr. Awan come forward and go to the Fed, and go to everybody else, and testify about the connection between First American and BCCI. However, Senator, as of October 1988 he had been indicted. Now, let's move ahead, and he couldn't. He was not going to tell us that information at that time.

Senator KERRY. Who could not?

Mr. KEHOE. Mr. Awan, because in October 1988 he was a defendant with a defense attorney.

Senator KERRY. He had already told it to people.

Mr. KEHOE. There is one thing, Senator, telling it in a covert tape, and it's yet another, as you know having been a prosecutor Senator, of debrief somebody.

Senator KERRY. I know, but the question is——

Mr. KEHOE. Senator, let me finish please. It's yet another thing, as you know, saying, pointing someone to the documents to corroborate that piece of information. Now, with what Mr. Morgenthau and I told—I spoke to you the other day about this—as my view as a career prosecutor is, Mr. Morgenthau has got a case. I say God bless him. If he's got a case against somebody, and he can make a case, we will back everything he does, Senator.

However, he was able to piece that case together with an item that we did not have. That I wish we had, Senator, but we didn't have. And that was the November 1990 Price Waterhouse report that was done in England. We did not have that. Mr. Morgenthau, through his contacts, got that. And he indicted a case, and I credit the work that he has done in that regard.

But we were doing different types of work. We were convicting the people that we had down in Tampa, and continuing our investigation.

Senator KERRY. Well I want to inquire about that, obviously, a little bit. But we have another vote on, so we are going to have stand in recess while I go vote, and then we will be back.

[A brief recess was taken.]

Senator KERRY. The hearing will come to order. We have a lot left, obviously, to still try to cover in a short period of time. I apologize for the interruptions. I know it is an aggravation, but a necessary one.

I have a feeling that for every perception that I or someone else might have that more could have been going on, there is obviously a response, and you guys are going to have the capacity to say, well, we were doing this, we were doing that.

And the problem still will come back to the sense that outside observers will have or not have of the differences between what some people perceive or do not perceive as high-gear action, I guess. It is just my sense, and I have said this at prior hearings so there is no surprise in it, that this was kind of less than high-gear action.

Mr. KEHOE. Senator, can I comment on that?

Senator KERRY. Absolutely.

Mr. KEHOE. I was the first assistant as of February 1989. I came into this case, spent a tremendous amount of time with Mr. Jackowski on strategy as to what we were going to do, how we were going to proceed.

It was my philosophy then, as a career prosecutor who has done protracted cases, that you proceed in a traditional fashion. The traditional fashion that I decided that the middle district of Florida was going to proceed on, was going after the people, the target that you have in your crosshairs. The target in the crosshairs were the defendants that had been indicted in October 1988.

Now, for every investigation that I have been in since, in all the years that I have been in the Department of Justice, there are leads. Could there have been leads followed up in this that were not? Absolutely, Senator. But you never lose contact and you never lose sight of your target, because your target, once you convict him, provides you with a source of information that in my experience cannot be duplicated.

He can point you in the right direction. He can tell you where to go. And on top of that, he can assist you in not only getting other indictments and other convictions as you move up the line. That is what we were trying to do. We were trying to take these defendants and trip them up.

That is the traditional prosecutorial strategy; that is my strategy in virtually every case that I have done, and that is the one that I employed. I ordered these people to keep their eye on this case. And that is why we went in that direction.

Senator KERRY. I am trying to find a way to say this so that I do not dig a hole here. I am uncomfortable sitting here looking at three professional prosecutors who are dedicated to doing something, and saying to you, from the grand posture of this podium and my title and position, that I disagree with you.

People say that 20-20 hindsight is always easier, but this is not 20-20 hindsight. We thought, we, being a group of us who were involved in this, thought during it that there was a different way to

go at it. And I respectfully—and I say respectfully, and I do not say it for the purpose of just saying it, I mean it—I say that I disagree with you.

When the plea bargain came down, I spoke out then because I had a different perception of how this case could be made. I had such a different perception of how the case could be made that I sent Jack Blum to you. I did. And it is kind of interesting today; you have sort of attacked Jack Blum's credibility, and I will come back to that in a few minutes, but it is ironic that Jack Blum went to the Feds because we were turning over information that we thought needed investigation. And our very sources were saying to us they are not being talked to.

Mr. KEHOE. Let me respond to that.

Senator KERRY. The subpoenas for documents that we were after were not subpoenaed. I just, I have to tell you, I know the dates, I know the timeframe, I know the documents.

Mr. KEHOE. Senator, let me—

Senator KERRY. What I am saying to you is there is a difference of opinion here as to what went on, when and how. Now, that is why I do not want to spend hours going through each different component of it, but I will deal with a few of them here. Let me give you an example.

Mr. KEHOE. Senator, please, before you move on, and I think it is important—

Senator KERRY. I am not going to move on. I am going to stay right on this, and then you can answer it, OK?

Mr. KEHOE. Senator, please, may I comment on what you said? Because I think it is important for you, Senator, to appreciate exactly what was going on. I can appreciate that you, Senator, disagreed with the philosophy that I took.

Senator KERRY. Not just the philosophy. I'm disagreeing with fact. For instance, when was this, and let me ask the question—

Mr. KEHOE. Senator, Senator—

Senator KERRY. No, let me ask the question. When was this gentleman made a full-time attorney on this case? 3 or 4 months before the takedown, correct? Is that correct?

Mr. KEHOE. Senator, may I answer what is going on? Mr. Jackowski, with regard to that, was at the beck and call of Mr. Mazur throughout the investigation. But going back to the other philosophy, Senator, the philosophy we employed that you, Senator, disagree with, obviously that is your prerogative. But, Senator, it has been the only successful philosophy that has produced any results to date.

And Senator, with all due respect, you are criticizing a philosophy which has not reached its conclusion and is nowhere near reaching its conclusion. How can we analyze a baseball game when we are only in the third inning?

Senator KERRY. The metaphor has been used by the Justice Department, you do not perform an autopsy on a live corpse. The difference of opinion here is whether it was live or comatose. And my feeling is it was comatose for a period of time, during the timeout, the timeout that Bob Mazur testified to. Now—

Mr. KEHOE. Senator, Senator, please—

Senator KERRY. No, no, I am going to give you ample opportunity to answer, but I want to ask a question. Now, look, there were some 1,900 telephonic recordings. By April 17, 1989, only 16 of them were proofed and in final typed form. Is that a high priority?

Mr. KEHOE. Senator, you are 100 percent right with regard to delays in transcribing those tapes. We had problems in transcribing the tapes. A decision was made by the prosecutor, Mr. Jackowski, that the tapes were not to be transcribed prior to the takedown for security reasons.

We did not want to take the chance of having some outside agency—which often we do in cases, we have outside agencies transcribe our matters—we did not want an outside agency possibly leaking information; it was too sensitive a matter. We ultimately were delayed in having those tapes transcribed.

I do not think, maybe you and I did not discuss that in private session, Senator, but I will tell you under oath right now that was a problem. It was a problem with the court, and I believe I see Mr. Jackowski's statement or Mr. Genzman's statements that alludes to that. But we got it done.

Senator KERRY. Second question. Approximately 16,600 documents were obtained from individual defendants, either incidental to arrest or via search warrant. In excess of 100,000 documents were obtained from BCCI via search warrant. Although all of these records have been copied and provided to the defense, none of these records have been viewed and analyzed by case agents.

Mr. KEHOE. Senator, I believe that was in a memo written by an agent, a Customs agent, sometime during April 1989. At that time, the facts as stated therein were correct. The reason why the facts as stated therein were correct at the time was because we had a number of other matters to deal with, and we were principally starting to focus on the transcription of the tapes.

We had had bond hearings and bail hearings, which consumed a substantial amount of agent as well as prosecutorial time, from the time of the takedown, Senator, through December or late November 1989. We also, sir, had to deal with discovery obligations relative to a forthcoming trial in Detroit.

We also, sir, had to deal with the preparation of letters for France. We also had to deal with the extradition of a defendant from the United Kingdom to the United States, that is, Mr. Chinoy, who just arrived here in March. Those were all other matters, sir, which had to be dealt with before we could get to the records.

Shortly thereafter, sir, there was an IRS agent who was assigned with the sole duty of preparing the trial evidence. He, in fact, in conjunction with myself but principally him, his name is Orrin L. Oaks, he went through those documents, sir. He went through those documents, analyzed those documents, and the documents were thereby selected and prepared for trial.

And as a matter of fact, he testified as a summary witness in the trial, and his charts and his summary of those documents was admitted in evidence, sir, and was also, in my mind, a great way of summarizing the Government's evidence and substantially contributed to our successful prosecution.

Senator KERRY. I do not deny that, and the point I am making, and I could go through a number of other things, and you see, you

will always have subsequent actions that were taken to try to stopgap it.

Mr. JACKOWSKI. I do not think it is stopgap. The point is, sir, in a prosecution, you take first things first. The first that happened was the arrest. The next thing that happens in the criminal justice system is bond or bail decisions are made. That is what you have to focus on.

Senator KERRY. I have to tell you respectfully, look, I have presented evidence to a grand jury before, and if I had had a grand jury instead of a congressional committee that could not even get the U.S. Congress to back up its subpoenas, and which has taken a lot of flack because of the difficulties we had, this case would have been wide open in early months of 1989, absolutely.

And I know for a fact from witnesses we have talked to in BCCI that they were scared stiff of us breathing down their necks, and how close we were getting. But we were not able to; it is one of the great failings of this institution.

And I will tell you, I know that if I had had the power to subpoena certain individuals and documents and get them in there, one on one, the way you guys do, not the way we do, where I have got to go to six Republicans and fight the politics of 1988, and people who are alleging the committee was simply a front for Dukakis, and that we were not trying, you know, and so forth. I mean, that is what we ran up against. I am telling you what we were up against.

Mr. JACKOWSKI. Senator, I hear what you are saying.

Senator KERRY. There was no grand jury that called the critical witnesses together in 1988. They just did not come.

Mr. JACKOWSKI. Senator, may I respond to that, please?

Senator KERRY. Absolutely.

Mr. JACKOWSKI. This was an undercover investigation, it was a covert operation.

Senator KERRY. After the takedown, they never were called.

Mr. JACKOWSKI. I am going to get to that, Senator.

Senator KERRY. Some of the attorneys tell us to date their witnesses have not even been debriefed.

Mr. JACKOWSKI. Senator, this, our case, was a money laundering case.

Senator KERRY. That is the problem, it was not a money laundering case. It was a case that was much bigger than that.

Mr. JACKOWSKI. Senator, I respectfully disagree with you. Our case was a money laundering case. During the course of our case, we received information relative to other allegations, the First American Bank, NBG ownership allegations.

For instance, we did not ignore those allegations. We obtained information from Awan throughout the course of the case concerning that. Subsequent to the case, we received committee from Mr. Blum, who as I now understand it, was sent to us by you. And we received—

Senator KERRY. He told you that. He told you he had my permission to come to you. What do you mean you are now learning that? Your own memo says Jack Blum has permission from Senator Kerry to come to us.

Mr. JACKOWSKI. My own memo?

Senator KERRY. In one of the memos of the Justice Department.

Mr. KEHOE. That is agent Cook's memo.

Senator KERRY. That is correct, agent Cook.

Mr. JACKOWSKI. Permission versus direction are two things. The way Mr. Blum presented it, it was on his initiative, not at your direction or not on your initiative. That is the distinction I am trying to make.

The other point that I am trying to make is there is no denying that we received from Blum information concerning First American Bank. But that information did not per se fit into our case.

Blum also came to us, Senator, and told us that these witnesses had information relative to the laundering of heroin money by BCCI officials in other countries. We were extremely interested in receiving that type of information, Senator. Those witnesses did not, did not have any knowledge or indeed information concerning the laundering of heroin money by the bank.

So, to make an analysis, sir, or to draw an analogy, we were at dinner, and the first course was to eat the money laundering plate. And when you look at the evil behind this bank, or the alleged evil behind this bank, the alleged evil is that they facilitated the cartel. That was what was on our plate. We ate that meal. We did not ignore the dessert, which was First American Bank; we simply put it aside. And that matter was addressed by us after the timeout.

Now, the problem with respect to all of this, Senator, is that you, sir, and a number of other people, are dissatisfied with respect to the pace of the investigations conducted by the Department of Justice.

Senator KERRY. Not now. We were.

Mr. JACKOWSKI. But you were.

Senator KERRY. I think there is——

Mr. JACKOWSKI. Hold it, I am not done. You were dissatisfied, and the reason you were dissatisfied is because we did not return indictments predicated on Blum's information. Now, a distinction has to be drawn between information that satisfies a committee such as yours before you can take action, and information which rises to the level of admissible evidence. Those are two different standards. Our standard is much higher.

Senator KERRY. With all due respect, that is not what I am dissatisfied about. I am not dissatisfied that you did not bring indictments. I am dissatisfied that the people were not talked to, that there was no clear evidence of an investigative seriousness.

Now, you yourself said that you had this interview with Jack Blum, and you were skeptical of the quality of the evidence he did. Well, skepticism is different from cynicism. One can be skeptical but one can investigate.

Mr. JACKOWSKI. And we did.

Senator KERRY. Not, let me tell you, certainly not during the ensuing months, because they were not talked to. I do not know what to tell you.

Mr. JACKOWSKI. Senator, you do not know what investigative steps we took until the timeout, and what investigative steps we did not take.

Senator KERRY. But I know the fundamentals of talking to the critical people who have been provided to you were not done.

Mr. JACKOWSKI. Sir, we did speak with those critical people Mr. Blum provided. Mr. Blum provided two witnesses to us; both of those witnesses were taped at my direction, and both of those witnesses were debriefed subsequent to their being taped. At the time they were being debriefed, they did not know that they were being taped.

The first debriefing was conducted by myself, two other assistant U.S. State's attorneys, one of whom, Michael Rubinstein, was my cocounsel, and a number of agents. That person, sir, was talked to. He was talked to in Mr. Blum's presence.

Senator KERRY. Are you talking about the person that was taped by Jack Blum?

Mr. JACKOWSKI. Mr. Blum never taped anybody.

Senator KERRY. No, the person that he was with when they taped him.

Mr. JACKOWSKI. There was a tape made of a meeting between Jack Blum and an individual, sir, between the end of March 1989.

Senator KERRY. Right, which he was aware of and which he went along with.

Mr. JACKOWSKI. Blum did, yes sir, absolutely, but he did not tape it. That was taped at my direction.

Senator KERRY. This is really semantics. I understand. That is the tape that he was referring to.

Mr. JACKOWSKI. It is not semantic, because Mr. Blum is attempting to say that he taped him. He did not. I think that is a distinction.

Senator KERRY. I do not he ever said that.

Mr. JACKOWSKI. I think he did, sir. He said it, sir, for instance, when he spoke on the MacNeil-Lehrer Report several months ago.

Senator KERRY. I think we are dealing again with semantics. I mean, he was present at the taping. And he was the principal conduit for the taping, correct? I mean, he was the principal conduit, he was the guy having the conversation with the person being taped.

Mr. JACKOWSKI. If you define conduit to mean that, yes.

Senator KERRY. He was the person having the conversation that you were taping.

Mr. JACKOWSKI. That is correct.

Senator KERRY. So it is perfectly normal for him to sit there and say the conversation was taped or I had the conversation taped.

Mr. JACKOWSKI. That would not be normal for me, sir, or for other people that I am aware of.

Senator KERRY. Well, I have some more questions on that issue, but Senator Brown is here and I am going to yield to him, and then we will come back.

Senator BROWN. Thank you, Mr. Chairman. I thought it might be worthwhile, even though you have covered a portion of this in your opening statements, to go through kind of quickly, at least seven areas that I have spotted where Mr. Blum made a statement that relates to your work, directly or indirectly, and ask you to comment on it.

Mr. KEHOE. I am ready to answer those, Senator.

Senator BROWN. First, referring to the period of spring of 1988, when Jack Blum called Miami to discuss the subcommittee subpoe-

na, and he was later referred to Tampa in our records here, "is in the course of that"—referring to phone conversation—"we laid out some of the history of the bank, the nature of the criminal clientele, and connections the bank had. I invited them to come back at me with questions. The invitation was never followed up."

Mr. KEHOE. There was a conversation, and that conversation, Senator, was with Mr. Jackowski himself. So I will defer to Mr. Jackowski to give you a more accurate recitation of that conversation.

Mr. JACKOWSKI. Mr. Blum, sir, called, did in fact call us at the end of March 1988, and did in fact provide information to us concerning the subcommittee's then desire to issue subpoenas. He did provide a history of the bank. He did ask us to come back to him with questions, as I recall.

But the posture that we were in, sir, with Mr. Blum, as indeed with most people who provide us with information, is, as Mr. Kehoe says, we take information; we were not in a position, sir, by virtue of asking questions of Mr. Blum, to make investigative disclosures which would result, which would indicate the course of our undercover investigation.

We did not want to provide any guidance to anyone, even an investigator with the subcommittee, which might, if the wrong word were said to the wrong person, somehow get into the wrong hands and put the lives of the undercover agents at risk, and compromise the work that had been done so far.

Senator BROWN. His concern was that even though he had invited you to come back with questions to him, you did not, because you did not want to give an indication of which way you were heading?

Mr. JACKOWSKI. That is correct.

Senator BROWN. The second one relates to a somewhat related subject, I guess. This is referred to page 52 in the transcript. "BCCI informant debriefed for 3 days by Blum in Miami hotel room. Meetings were taped by Customs—he referred to that, Customs, IRS—turned over March 1989 to Customs, IRS, and Justice"—yourself.

Blum says, "the tapes laid out in exquisite detail the false capitalization of the bank, the question of a strawman holding the stock. Loans to strawmen paid for the stock, but the loans would never be collected. The use of the bank to purchase First American NBG, Independence Federal of Encino, and so on."

Blum comments that you appeared, "eager to go forward, excited about the new information," and then on page 54, he says, "I waited for something to happen, and what happened was, I started getting calls from two guys I took to Tampa who said, they are not following up. And then I talked to the agents, and the agents said, well, we are very busy. We are working in preparation for the trial."

Comments on that observation?

Mr. KEHOE. This is an interview with a particular witness that Senator Kerry was referring to previously. That witness, when he was debriefed by Mr. Jackowski and was the subject of a recording, Senator, gave us information that he said he did not know first-

hand. He had heard this, this was rumor around the financial community, and he never wanted to testify.

Did we take the information? Again, Senator, I say this, we took the information. Did we use it in the particular prosecution that we had before us? The answer is no, because No. 1, he was a reluctant witness, and No. 2, we did not need it for this particular prosecution.

Often during the course of a case, Senator, you get pieces of information that you put in your intelligence bank. Hopefully when you move down the line, you will be able to tap that intelligence bank so you can somehow weave that into your next case. Sometimes it happens, sometimes it does not. That witness fell into that particular category.

Now, he brought us, he brought that witness to us in March 1989. And several times during his testimony, he said he—Mr. Blum indicated that he was frustrated, frustrated with the efforts of the Department of Justice and they were not doing anything. Well, it took Mr. Blum 3 weeks, or maybe 1 month, or maybe 1½ months, but from his own testimony before this committee, it looks like about 3 weeks to bring that witness to the D.A.'s office up in New York County.

Now, I do not begrudge Mr. Blum bringing any information to the D.A.'s office in New York County. As a matter of fact, I would encourage anybody to cooperate with law enforcement efforts wherever they may surface. But the fact of the matter, Senator, is that I am somewhat skeptical about a 3-week, or month-long, or 6-month frustration with the lack of effort on the part of the Department of Justice.

Senator BROWN. Specifically, he is referring to two guys, I understand that. But it is page 54, "I started getting calls from the two guys I took to Tampa who said, they are not following up"—the implication being that you had not talked to them.

Mr. KEHOE. We did talk to them, Senator. They both were debriefed. One of them was the witness that Senator Kerry was discussing previously. There was another witness, who from the indications of debriefing agents, would say they are looking for more information than they were for giving us information. Again, what he had to say we took, but again with regard to this particular prosecution, it was of little or no utility.

Mr. JACKOWSKI. Senator, if I may expand on that. With respect to the witness that Mr. Kehoe is referencing, the second witness, this witness was specifically asked, I believe, about money laundering vis-a-vis the Colombia branch of BCCI. And in substance he indicated that he knew nothing about it. That was the type of information that, had we received, sir, we could have utilized during our trial. We did not get that type of information out of that witness.

With respect to the first witness, that witness was asked whether or not he had any knowledge relative to BCCI's involvement in the laundering of heroin money. He indicated that that was a subject of discussion among and between the bankers; he also indicated that it seemed to be, as I recall the synopsis of the tape, somewhat of a laughing matter.

And he also indicated that he had received, this witness had received information from the press in Pakistan relative to the prop-

osition that BCCI was laundering heroin money. But he himself had no personal knowledge of that. Had that witness provided that kind of information, that kind of information could possibly have been used to supersede our indictments, or as like and similar act evidence relative to our indictment.

Senator BROWN. He had mentioned, this is back on page 52, that the tapes laid out in detail full capitalization use of the bank to purchase First American NBG, Independence Federal, loans to strawmen and strawmen holding the stock. Did the tapes indeed contain that information?

Mr. JACKOWSKI. The tapes, sir, contained information with respect to First American, that is correct. They contained information relative to NBG, that is correct. They contained information relative to Independence. With respect to Independence, the first witness said that he had in fact gone to a law firm because he suspected that Independence Bank might be owned by BCCI through Ghaith Pharaon.

He was told by this law firm that due to the fact that he only suspected this and did not know this, he himself had no duty to report this matter to the Federal Reserve Board. He also did, sir, concede that he knew details relative to the inside workings of BCCI, but in substance indicated that he had no personal knowledge relative to the wrongdoings.

Now, that is what he said, and that is as far as I am going to go.

Senator BROWN. I can understand that. Where I was trying to get was to get a feel, this is in 1989, March 1989.

Mr. JACKOWSKI. That is correct, Senator.

Senator BROWN. Did you communicate the substance of this information to the Federal Reserve?

Mr. KEHOE. At that particular time? At the particular time, there was information passed on to the Federal Reserve concerning the First American-BCCI connection prior to that. The original reference—and I reference the committee back to the testimony of Virgil Mattingly, which was before this committee, I believe it was in August, on August 1—where they said they got that information on December 27, 1988.

But again, Senator, let me reemphasize that this information falls into the category of the information that we received in March 1988, the tape, the now-famous taped conversation on September 8, 1988, wherein there was substance to, or there was this allegation that BCCI controls First American.

Without additional meat on the bones, the position of the Fed was that they could not move further; they had to have some documentary proof. That particular witness did not know any information directly, did not know if in fact that was the case, and did not have any documents to corroborate it.

Senator BROWN. Going on. Page 58, Jack Blum says, "I think the frustration about getting documents from people who say they are cooperating fully was pretty enormous." Comments on that?

Mr. KEHOE. Senator, could you repeat that again please?

Senator BROWN. This is page 58, again, in Blum's testimony. "I think the frustration about getting documents from people who say they are cooperating fully was pretty enormous."

Comments with regard to document exchanges with Mr. Blum?

Mr. JACKOWSKI. I think, sir, what Mr. Blum was referring to was the bank's response to this subcommittee's subpoenas that were issued during July and, I believe, in September 1988. That is what I believe, sir, he was referring to, and not with respect to any cooperation between the bank and the Department of Justice as a result of the plea agreement in Tampa.

Senator BROWN. Thank you again. On 58, moving on down, there are a couple of these. I will try to skip through them quickly. This relates to the plea agreement. "When the plea agreement was entered into the Department of Justice in January 1990, I was personally infuriated, the agents knew. The assistants well knew that there was more to this case, and that plea agreement said in relevant parts that the bank would not be prosecuted for matters then known to the U.S. attorney for the middle district of Florida."

Now, you have touched on this earlier, at least on parts of the plea agreement. Would you address that specific quote?

Mr. KEHOE. Cannot be prosecuted for crimes that they knew of at the time? That is, the paragraph that Mr. Blum is referring to is a standard cooperation paragraph that we have in our plea agreements. And what we basically say is that with regard to this particular investigation, we will not prosecute you for any outstanding violations that we have.

We did that in this point. The fact of the matter was that there were other outstanding investigations that were going on throughout the United States that were not binding in any way, shape, or form. This particular investigation bound us only not to take documents that we were getting from the bank and hitting them again, or taking documents that we had already taken from the bank, tapes, et cetera, and hitting them again, indicting them again.

It did not bind any other entity in the U.S. Government in any way, shape, or form. Nor, Senator, did it bind any regulatory agency. What the feeling was, and it is important, Senator, to understand what—and let me say this, Senator, the theory was my theory, because I negotiated this plea agreement on behalf of the United States. I, Greg Kehoe, the first assistant. I then went up the line to Mr. Genzman for his approval, who had the ultimate decision, but I negotiated this.

What I wanted to do is I wanted to convict this bank and force them to cooperate with us all the way up the line. The name of the game in criminal prosecution, Senator, is to put people in jail. Continuing to indict an institution, in this particular case BCCI, ultimately turns into a spiritual experience, because after the second or third time down the track, the judge looks over the bench and says, what is going on here?

Really, we are in the area of being punitive, and there is nothing to be benefited by indicting this bank again here in the middle district of Florida. Maybe elsewhere, but not here in the middle district of Florida.

My theory in consultation, and we discussed this at length with Mr. Jackowski; plead this bank, force them to cooperate, put these people in jail, have them cooperate, and then having the bank plus the individuals that we convicted cooperate, to move up the line, Senator, to the next level of people, the next level of managers that were controlling this bank throughout the world. That was my phi-

losophy then, that is my philosophy now, and it continues to be the philosophy that we are proceeding on.

Senator BROWN. To recap, what I understand is the point here, the agreement did not cover the bank—it covered the bank, but not individuals.

Mr. KEHOE. It did not cover any individuals, and the case in point, Senator, is on a September 1991 document. Mr. Naqvi, a very high level officer in that bank, has been indicted in the middle district of Florida. Mr. Rizvi, a very high-level officer in BCCI, has been indicted in the second indictment of September 1991, which we could not have done had we not convicted the individuals in July 1990.

Had we been able to get Mr. Naqvi, Mr. Rizvi, and some of these other people that we indicted, we would have indicted them in October 1988. But we could not do it until we completed the case in July 1990.

Senator BROWN. It does not cover individuals, the restriction? It did not cover BCCI? When he refers to the bank, he is referring to the bank there, not BCCI, the holding company?

Mr. KEHOE. It refers to, with regard to what we have in the middle district of Florida, it does refer to Holdings. The problem with Holdings was, there was no presence and there was no evidence that Holdings had done anything, in our case in the middle district of Florida.

Consequently, when Mr. Jackowski indicated the case, the reason why Holdings was indicted, and others, was he was not sure at the time who did what. As the matter began to flesh out, it was clear during our discussions that Holdings had not done anything in the middle district of Florida, or else we would have indicted them, convicted them, and insisted on a plea from them as well.

Senator BROWN. Mr. Chairman, I have gone quite a while, but on page 62, Mr. Blum says, "it turns out that the record of BCCI in that area"—and this is concerning fraudulent practices in the issuing of letters of credit—"that their record, BCCI, in that area, was brought to the attention of the U.S. attorneys for the southern district of Florida by the attorney in the smuggling case being brought against BCCI, and he offered no response."

I do not know if you found that in your transcript or not.

Mr. KEHOE. I have not found it in my transcript, but I would say, Senator, I am familiar with it, having read it.

Senator BROWN. I think, reference, for example, coffee smuggling.

Mr. KEHOE. Senator, it is, the problem with that, the testimony of Mr. Blum—

Senator KERRY. Could we suspend on this? I think we are well into the second half. Why do you not just go ahead and answer?

Mr. KEHOE. Why I respond to that when I come back, Senator?

Senator KERRY. Why do you not go ahead and respond and then you make it a couple minutes?

Mr. KEHOE. I can make it 30 seconds, Senator. Senator, we are talking about apples and oranges here. Another example with Mr. Blum's testimony is that often he confuses the two. And there is a portion in his testimony, he said, but we gave up all these banking

violations, and we gave up all these false statements to the Federal Reserve, and we gave up all these documentary violations.

We did not give up any of that, Senator, because it was not in the middle district of Florida. I knew what I was doing when I entered that plea agreement. The matter was still existing in Miami. There are cases still going on in Miami, and there are cases going on in other places. We did not compromise those investigations in any way, shape, or form as a result of our plea agreement.

Senator BROWN. The point, I thought, if I could return, when we come back, is coffee. There are a few others, and I will leave these questions for you. You might want to check those areas.

Senator KERRY. We will return and we will try to wrap up this panel. I know Mr. Mueller has been patient, but we will try and get through here as soon as we can. We will stand in recess until we return.

[A brief recess was taken.]

Senator KERRY. The hearing will come back to order. Let me ask a number of questions in different areas. Mr. Genzman, let me ask you. This issue came up earlier today. To a lot of people looking at this thing on the outside, they have the impression that this was a good case, if not a classic case for a RICO effort.

And I gather, and I read this earlier in the day with Mr. Mazur, there were a series of memos, a February 12, 1988, regarding Operation C-Chase, that says, the current objective of the BCCI investigation was to develop evidence to bring RICO indictments against BCCI.

A February 19 memo to the Assistant Commissioner of Customs states, the investigation has recently developed evidence which could lead to a RICO indictment of BCCI. An April 6, 1988, memo says, it is the opinion of the U.S. attorney's office, middle district of Florida, that prohibitive evidence exists to establish corporate criminal liability against BCCI as an institution. The current prosecutorial plans are to indict BCCI as an institution under the provisions of the RICO statutes.

That specific position was in fact approved by William Von Raab as Commissioner of Customs on May 10, 1988. But by September, the RICO case had been abandoned, or the concept of bringing it. Why was the RICO concept abandoned, Mr. Genzman?

Mr. GENZMAN. Let me start by saying, Senator, that I did not arrive on the scene until less than 2 weeks before the takedown. I am an advocate of RICO where appropriate. Let me start by saying that. I studied under and worked under the author of RICO, G. Robert Blakey. It is a powerful statute which our district probably uses more than any other district in the country.

However, as I mentioned in my opening statement, given the circumstances of this case, the career prosecutors who were working with the investigators came to a determination that it was not appropriate in this case, that it would confuse an already confusing and complex case, the first money laundering case under this particular statute, or one of the first in the Nation.

And frankly, having seen all that I have seen, including the House subcommittee's criticism on that issue, I am still not in a position to second-guess the fact that a RICO was not brought against the bank at that point.

Senator KERRY. Could it have been?

Mr. GENZMAN. Could it have been? I do not know why it could not have been, but I need to defer to my colleagues who were directly involved in the charging of the bank.

Mr. KEHOE. The answer to that question, Senator, is yes, it could have been. There were two levels of decisionmaking that went on with the RICO. Prior to my getting there, Mr. Jackowski made the decision, and then there was some discussion with that after I came on the scene in February 1989.

If we could take it chronologically, and I will turn it over to Mr. Jackowski, and he can tell what his decision was in October 1988.

Mr. JACKOWSKI. First of all, it is correct that a RICO could have been brought against the bank. The reason why it could have been brought against the bank is because the substantive money laundering counts, the 1956 counts, were RICO predicates, as was the 846 narcotics trafficking conspiracy.

There are several reasons why a RICO was not returned against the bank at the time of the initial indictment back in October 1988. We were in the midst of an undercover operation. As the subcommittee may know, in order to get, in order to be able to charge RICO, it is a department policy and requirement that you have to get departmental approval.

Due to the ongoing and extremely quick or fast-moving nature of the case, we felt at that time that we would not have the requisite period of time within which to get the approval, at the same time dealing with preparing the indictments—and there were three indictments that were in fact returned in October 1988, not just the one against BCCI—and also dealing with the searches that needed to be conducted in Miami and elsewhere.

So that was one reason. The other reason was because the principal focus of RICO is in forfeiture. And we charged in 846, 21 United States Code, section 846, a narcotics trafficking conspiracy against the bank. As a result of charging that, we were able to charge in the indictment a forfeiture provision under title 21, United States Code, section 853.

The forfeiture provisions under 21 United States Code, section 853 provide for in essence, sir, the same forfeiture ability as is provided for under RICO. For instance, the definition of proceeds is the same under RICO as it is under section 853. In addition, under section 853 the Government is able to forfeit any property that was used to commit the offense, or that facilitated the commission of the offense.

It was our view that that forfeiture provision was broad enough at the time to enable us to do what we wanted to do, and that was to get a temporary restraining order against the bank, restraining the bank's ability to do business in the United States until they placed in the registry of the court, as in fact they did do, an amount of money equivalent to the funds that were laundered through the bank.

That is in fact what happened. We charged the section 846, we had a section 853 forfeiture provision thereunder, we got a secret temporary restraining order from Judge Carr, who is since deceased, before the indictments were unsealed. And when the bank opened for business, I believe, on either Monday or Tuesday of the

following week, the bank was unable to do business until the restraining order was dissolved by the bank placing in the registry of the court approximately \$13 million or \$14 million and change.

Senator KERRY. Was that only as to that branch?

Mr. JACKOWSKI. The restraining order, sir, was entered both against Holdings—excuse me, the restraining order was entered against the two subsidiaries of the bank that had done business in the United States, Limited and S.A. So if your question is was it only directed against the Miami branch, the answer is no. They were unable to conduct any business whatsoever in the United States.

And given the fact that this was an international bank, and wire transfers constituted a substantial part of their business—as the subcommittee knows, most wire transfers go through New York—this bank was effectively precluded or stopped from doing business until the restraining order was lifted, as it was. We did the \$14 million.

Mr. KEHOE. Senator, may I supplement what happened thereafter with regard to that? I came to the middle district of Florida on this case in February 1989, and I have to say when I came to the middle district of Florida I had RICO on my mind. I had just spent 14 months trying a racketeering case against the Outlaw Motorcycle Club.

And in my view now, then, and will continue to be, the racketeering statute is one of the great statutes that Congress has passed for law enforcement. It enables us to do a variety of things that no other statute enables us to do. For instance, in the *Outlaw* case, I was able to indict predicate acts that stretched from December 1970 through early 1986. Why? Because the enterprise had continued in operation throughout then.

It gives us an additional penalty that the general conspiracy statute does not give us; 371 conspiracy being 5 years, the racketeering conspiracy and substantive RICO charge, 20 years apiece. Very important is it enables, the racketeering statutes enables predicate acts from all over the world and all over the United States to be incorporated in one indictment, provided the enterprise has some existence or some context, venue context, in your district.

Certainly in many, many cases, and even in the September 1991 case that we had, it has its facility, it has its place. And personally, Senator, I love RICO. It has its downside. The downside, having tried these, is proving those very difficult words in the statute, participating directly and indirectly in the affairs of an enterprise through a pattern of racketeering.

Very difficult to do. Very difficult to understand. And it is a complex area. I came in February 1989. My first—well, not my first, but shortly after that, I discussed this at length with Mr. Jackowski about the pros and cons of RICO'ing the bank, what we were going to gain and what we were going to lose.

And candidly, the way we ended up was that we were charting new waters here. This had never been done before. An international banking institution had never been taken on in this way. Never had section 1956(a)(1) and section 1956(a)(2) been used in this way. There were numerous complex, legal issues attendant to using sections 1956(a)(1) and 1956(a)(2), not the least of which is does dirty

money lose its character when it is wired offshore through a whole lot of countries? I mean, there were a lot of issues that came up in that regard.

In addition to that, section 1956 itself has a degree of complexity to it, not for me or Mr. Jackowski anymore, because we work with it all the time, but certainly for the lay person that you are presenting a case with who is going to be sitting on the jury. Your grandparents and your mother and your father sit on those juries, and if they are not attorneys and they have not heard about this stuff, it is very difficult.

What we were striving for was a simple case that was going to incorporate what this bank actually did. And we thought and concluded that it would be accomplished with the 371 conspiracy and the 1956 charges we had in there. I did not go into the discussion with Mr. Jackowski of that view.

When we talked about it and discussed it at length with the 1956 and a 371 and the 846, the narcotics conspiracy in there, we concluded that we were not going to benefit any, and that we were just going to add another level of complexity to a case that was already very complex. That is a long explanation to it, but it took a long time for me to come to that conclusion in my mind.

Mr. JACKOWSKI. Senator, if I might continue. Basically it was an application, and there were two factors that entered into my decisionmaking process. One is the application of the KISS principle, that is, Keep It Simple, Stupid. That is No. 1, because ultimately the jury was the audience for the indictment, and we had to be able to provide this case to a jury. That was No 1.

No. 2, as I said, the forfeiture provisions under 853, which are the forfeiture provisions that are intended to the 846 narcotics conspiracy count, are in essence the same as those with respect to RICO forfeiture.

The problem with the analysis, sir, is this. We had no inkling back in May 1989 that in December 1989 the trial judge would state, contrary to the state of the law, that proof with respect to the narcotics trafficking conspiracy would not go to the jury on the basis of the same proof that we were going to be able to put in with respect to the money laundering conspiracy. That is what happened here.

The judge, who is a very good trial judge, indeed the best judge in front of whom I have practiced, essentially came out of nowhere with the decision vis-a-vis the applicability of 846 to the facts of this case. We concluded that we did not have any evidence which we could introduce in our case in chief which showed that the bank did anything other than launder money.

Under the case law, as it existed at the time, going back to 1978, with the case of *U.S. v. Barnes*, out of the Second Circuit, money laundering had been defined to be an integral part of narcotics trafficking. That was an accepted legal theory. As a matter of fact, there was an Eleventh Circuit case which so held, *U.S. v. Bollinger*, that came down in 1986.

We thought we were on solid legal ground with respect to that particular issue. We thought that we could get all the forfeitures we could get under RICO under 846.

Senator KERRY. Did you get those forfeitures?

Mr. JACKOWSKI. No, we did not. And the forfeitures, sir, in my mind, that would have been available, had we convicted the bank of 846, after trial, would have been forfeiture of the license of the bank to do business in the State of Florida, because that is the place within the United States where the money laundering activity was conducted and carried out.

Senator KERRY. Did you go to bat to seek the forfeiture of that license? Did the U.S. attorney's office press for that forfeiture?

Mr. KEHOE. Senator, may I answer that, because I conducted all of those negotiations. I negotiated that.

Senator KERRY. Let me ask, was the U.S. attorney not there at that point in time?

Mr. KEHOE. He was there, Senator, but I did not negotiate with the particular attorneys and I met with the comptroller.

Senator KERRY. That is not answering my question. The question is did the U.S. attorney's office press to have the bank lose its capacity to bank in Florida?

Mr. KEHOE. Senator, may I answer the question?

Senator KERRY. I am asking the U.S. attorney, Mr. Kehoe. Would you allow him to answer the question?

Mr. KEHOE. I will allow him, of course I will allow Mr. Genzman to answer the question, Senator. But to give a full breadth of what happened, I ask after that if I might tell the Senators exactly what—

Senator KERRY. I have never stopped anybody from saying anything. And that is evident by the amount of time you have had this afternoon. I am trying to get a question in to the U.S. attorney. Did you as a matter of policy make a decision that the bank should not be allowed to practice, have banking privileges in Florida?

Mr. GENZMAN. No, Senator, we have a policy in our office that we will refer law enforcement information to a regulatory agency such as the comptroller's office in the State of Florida, in Tallahassee. But we are often asked by such agencies whether we take a position on regulatory action they may be considering. We get that from barbers' licensing agencies all the way up to banking agencies in this particular case. We have—

Senator KERRY. I am sorry, I did not mean to interrupt.

Mr. GENZMAN [continuing]. We have, this is a longstanding policy in my district, long before I became U.S. attorney. We have determined over time that the best thing we can do is provide all the law enforcement information, in other words, charges, convictions, sentencings, to these people, and to make ourselves available to flesh out the details, but to make sure that they are doing their job.

And in this case, we told the comptroller's office that we were taking no position. We did that by means of a letter, and we also sent a team of people up to talk directly to the comptroller's people.

Senator KERRY. Why would you take no position? See, that is a puzzle to me. In fact, first of all, did Justice not originally take a position; there was a letter from Chuck Saphos which originally had one position.

Mr. GENZMAN. May I clarify, because, and then this will go into this. Senator, with regard to the, this is not the only bank that we

are investigating and indicting at this time, or that we were urging a conviction on.

And every bank that we convict wants us to ask the comptroller have them revoke the license or take any regulatory effect on them. And because they argue to us that if the bank is shut down, the RTC will have to spend \$275 million, and life will be over as we know it.

I do not get involved in those, Senator. My world is very black and white. You are convicted for what you do, you are sentenced for what you do, and you are fined for what you do. It is somebody else's decision, a regulatory agency, to determine whether this institution, be it BCCI, or another bank that closed in our district, Florida Federal, or any other bank, should be closed because of their activity. There is no death penalty in any of the statutes that this bank has been indicted for.

A title 21, section 856; title 18, section 371; title 18, section 1956 (a)(1), (a)(2); and section 1957, conviction does not require that this bank's license be pulled; this particular institution was State-licensed. I went to, well, we sent a letter, our Chief of the Criminal Division sent a letter to Gerald Lewis outlining what the plea was all about.

While that was going on, the attorneys for BCCI came to me and said please call Lewis and tell them that the bank should stay open, because if the bank is open, they will be able to cooperate with you. My response to the defense attorneys at that point, Senator, was if you are dead, you are dead; if you are alive, we are going to use you.

On February 13, 1990, I flew to Tallahassee with the Chief of the Criminal Division, Mr. Zig, and sat down with the comptroller of the State of Florida, and reiterated face to face what the position was for the U.S. attorney for the middle district of Florida, and that was we were taking absolutely no position on whether or not the State of Florida wanted to close down that bank.

Now, the letter came from Mr. Saphos. I found out about that after I went back to Tampa. I called Mr. Saphos. Mr. Saphos told me that they were misreading the letter, and that that was not what he was doing, and in short order, this all took place in no more than 3 days. In short order, he sent a letter back to the comptroller, Mr. Lewis, saying, we are not asking that you keep the bank open. I called Mr. Saphos and ensured that he would clarify that decision in short order, and he did.

But the position remains the same. It is very difficult for a prosecutor or a prosecutor's office to advise a regulatory agency on licensing. We are prosecutors, we are not regulators. I do not know the ins and outs of the banking institution, and whether or not RTC or OTS or all of the alphabet agencies are going to be impacted by the decline and fall of BCCI, First American, or any other bank that happens to be in jeopardy because of a criminal indictment.

Senator KERRY. Well, assuming what you say is true, first of all, this is not an FDIC-insured bank, is it?

Mr. KEHOE. No, it is not.

Senator KERRY. So there is no RTC here.

Mr. KEHOE. I am using that as an example, but whoever is going to—

Senator KERRY. It is not relevant.

Mr. KEHOE [continuing]. Whoever is going to put this into some type of receivership, and I assume that the State of Florida, and I know the State of Florida has a receivership for their banks.

Senator KERRY. Well, were you upset when you saw the Saphos letter?

Mr. KEHOE. Yes.

Senator KERRY. And how did the Saphos letter come?

Mr. KEHOE. How did the Saphos letter come?

Senator KERRY. Why would Saphos have interceded and written a letter saying, we are therefore requesting that BCCI be permitted to operate in your jurisdiction? That is pretty clear. We are therefore requesting that BCCI be permitted to operate in your jurisdiction, with the understanding that certain accounts may be maintained by the bank, at the request of the Department of Justice, which otherwise would be closed to avoid legal and regulatory violations.

Now, he obviously wrote the letter—somebody said, you have to get a letter down to the judge or the comptroller. Do you know who? Did you ask him?

Mr. KEHOE. I asked him about this particular letter, and I said, Chuck, what is going on? And he said, as part of their cooperation, we want to use them.

Senator KERRY. Well, were they calling the shots?

Mr. KEHOE. Senator, let me finish. And I said, Lewis is reading this letter as if you are asking them to keep this bank open. And I said, I am telling you, I am speaking for the Department of Justice in this case, and the U.S. attorney for the middle district of Florida, and we are taking no position on that issue.

He told me that that was not what he was saying in this letter, and that he would clarify it. And he did. This, Senator, was a non-issue in a series of letters, and was concluded to the satisfaction of everybody involved by February 16.

Senator KERRY. Did it spark your curiosity, that attorneys for BCCI knew this letter was coming, and actually went into the comptroller and said, have you gotten a letter from Justice yet?

Mr. KEHOE. Senator, I have been doing this a long time. Nothing sparks my curiosity. I know that, in this particular instance, that obviously the attorneys for BCCI were talking to Mr. Saphos.

Senator KERRY. Well, when you say nothing sparks your curiosity, that worries me.

Mr. KEHOE. I am kidding. I am saying, Senator, that nothing surprises me in the murky world of criminal law enforcement.

Senator KERRY. That is exactly the problem. It is murky, and this is very, very murky as to why it is that Justice suddenly has BCCI lawyers knowing that a letter is coming from Washington to the comptroller, and that one day later, after you blow your top, or signal some displeasure, boom—there is a second letter that comes down and says, oh, no, that is not what I meant at all.

Mr. KEHOE. Senator, we are talking about 3 days. The letter came in on the 13th.

Senator KERRY. It came three days later, instead of one.

Mr. KEHOE. But Senator, the point of the letter is that the issue was resolved immediately with the comptroller.

Senator KERRY. That is not the issue. You do not see it, do you?

Mr. KEHOE. Senator, if you——

Senator KERRY. I know it was resolved. I acknowledge you did not take a position on the bank. What I am saying is that it strikes this Senator as not a little bit strange that, if you were indeed handling this, that it is indeed the middle district's choice, that lo and behold, out of Washington comes a letter, which the BCCI attorneys know is coming.

Now that says to me, someone was working the Washington till.

Mr. KEHOE. That says to me——

Senator KERRY. Am I wrong?

Mr. KEHOE[continuing]. What it says to me is that the individual attorneys that were involved here tried to go behind my back, and I stopped it. They knew when anything like this was going to go on, that I did not know anything about it, and I am not cc'ed on that first letter, as you can see. And I stopped it, and I talked to them about it after it took place. Well, I certainly talked to them about it before it took place, and our position remained the same.

They tried, I am sure; I am sure that these defense attorneys did not tell Mr. Saphos that they had been to me, and had made certain requests about operating in the jurisdiction.

Senator KERRY. I have no doubt about that. I am sure that they did not.

Mr. KEHOE. And Mr. Saphos' efforts were with the best intentions of law enforcement involved.

Senator KERRY. Did you receive any instructions whatsoever from Washington, or main Justice, with respect to the RICO process here?

Mr. KEHOE. One.

Senator KERRY. What was that?

Mr. KEHOE. The instruction came from Paul Coffey running organized crime, and during the time of the plea negotiations, when things were going back and forth, there was some threat about it; if these guys are not going to roll over or plead guilty, we just might RICO this bank.

Mr. Barcella, who was running the bank at the time, sent a letter to Mr. Coffey, saying that if the RICO was going to be presented to the organized crime section, please allow them an audience to be able to talk about it. That is a traditional procedure in the Department of Justice and organized crime; now I do not want to say it is followed in all instances, Senator. If there is a case of possibly the destruction of evidence, or flight of the defendants, they are not going to allow an audience.

For instance, in the *Outlaw* case that I noted to you before, there was no audience with the Outlaws' attorneys prior to a conference on organized crime on whether or not they would approve it. In this particular case, these defendants were under indictment, the bank was under indictment, and so in those particular situations, where there is no danger of flight or loss of evidence, the Department usually gives an audience. I should say does—I mean, I do not know about all the time.

Senator KERRY. Was there any instruction with respect to the decision not to bring them under RICO?

Mr. KEHOE. Absolutely not.

Mr. JACKOWSKI. Senator, may I add one bit to the record there? Mr. Kehoe indicated that occurred at or about the time of the pleas of guilty. It occurred, I believe, sir, sometime in late April 1989, right before the superseder.

Senator KERRY. Well, that reminds me. I want to clarify something. Earlier, I had mentioned the nondebriefing of a witness, and I was mistaken in my timeframe, and I wanted to correct that for the record.

I was talking about the time period between, I guess, the take-down, or somewhere in that period, and before the plea. What I was referring to was postplea; that the informant who, indeed, was part of that recording with Mr. Blum, subsequent to the plea, was not further contacted or dealt with. And I think that was the issue of concern.

Now, let me raise a couple of questions here relative to the testimony here. In the memorandum, in the testimony you refer to about Mr. Blum—and let me just say, Mr. Blum, I telephoned him this afternoon to make him aware of the comments that you had said out here about his visit with you, and he is well capable of defending himself, and will indeed, as he said to me. But he categorically, absolutely, and totally denies having said to you what you allege he said to you here. And he is on record, under oath, as having so stated.

What he does say is that he was referring to the very tape that he had given you, which was based upon what people were talking about in London. And, in fact, just to make the record even more clear, here Jack Blum had come to me 1 week earlier and made me aware of what they were chatting about, and had written me a memo with respect to it. And that was part of the reason that he came to you, again, with my blessing, and knowledge, and so forth.

Where he went, subsequently, which I did not direct him to, but which I gave my blessing to; it was his idea, and his initiation, I said terrific—was to go to New York to talk to the district attorney in New York.

Now, I take it, you do not have any written notes, if I recall correctly, with respect to what Blum said to you, is that correct?

Mr. JACKOWSKI. That is correct.

Senator KERRY. You did not record it or anything?

Mr. JACKOWSKI. That is correct.

Senator KERRY. Is there any reason why you did not investigate it?

Mr. JACKOWSKI. Because I did not credit it. Senator, I mean, here is a man who says that a subcommittee of the U.S. Senate has somehow been gotten to, or paid off.

Senator KERRY. But here is a man who came to you. And I understand that, but here is a man who came to you. And this is the difference between skepticism and cynicism, I guess. I mean, the skepticism, I would think, given the totality of what he was laying in front of you, would have said, maybe we will look at this. But there was sort of a total shunting aside of Jack Blum, and in fact,

everything that he laid out to you in the tapes and so forth has been proven true.

Now what Jack says to us, and has said under oath, is that he was relating what somebody else was saying, and somehow you have misinterpreted that, and put it in some different light. And, in fact, the district attorney of New York, we checked with this afternoon, and I have a letter here that I am going to put in the record.

[The information referred to follows:]

DISTRICT ATTORNEY OF THE COUNTY OF NEW YORK,
NEW YORK, NY,
November 21, 1991.

Senator JOHN F. KERRY,
U.S. Senate, Washington, DC.

DEAR SENATOR KERRY: In response to your inquiry of today November 21, 1991, I write to clarify the record. In March of 1989, I was chief of the Investigations Division of the New York County District Attorney's Office. At that time I met with Mr. Jack Blum, who wanted to bring to our attention what has become known as the BCCI case. Mr. Blum thereafter spoke with District Attorney Robert Morgenthau, and Assistant District Attorney John Moscow. I have spoken to both Mr. Morgenthau and Mr. Moscow before sending this letter.

At no time did Mr. Blum ever seek or request money from this office for his assistance to us in the investigation of BCCI, nor did he receive any money from this office for his out of pocket expenses.

At no time did Mr. Blum ever ask us for, or suggest that he wanted, employment with this office.

At no time, during this office dealings with Mr. Blum, did he ever accuse you, Senator Kerry, of misconduct.

At the time that Mr. Blum first told us about BCCI we viewed his story with skepticism. But we interviewed him, and additional, witnesses. We looked at documents. Simply put, we investigated the case he brought to us. And his "story" was proven to be true.

Sincerely,

MICHAEL CHERKASKY.

Senator KERRY. But the district attorney says Jack Blum, when he came to him, and this is both to Michael Teraski, who is his assistant, the strict attorney, and John Moskow, who is the assistant on the case, says that Jack Blum never sought or requested any money for anything that he did for them, never received any money, did not want any employment, and never told them about any notion of the thing being shut down, or of people having shut it down. He never mentioned it to them. And that is 3 weeks after he met with you. So I find that kind of bizarre——

Mr. JACKOWSKI. How do you find that bizarre?

Senator KERRY. I personally find that extraordinarily bizarre.

Mr. JACKOWSKI. The fact of the matter is, Senator, that those words were spoken; again, I am not suggesting, and I made that clear in my opening remarks.

Senator KERRY. I understand that you are not suggesting. But what I am saying to you is Jack thinks he told you something different, and you have interpreted it differently.

Mr. JACKOWSKI. Senator, there should be no doubt that Mr. Blum told us that your subcommittee's investigation was shutting down prematurely. He said that. As a matter of fact, sir, I did not document that. But that is documented in a memorandum of a Customs special agent, concerning a phone call that he got from Mr. Blum.

Senator KERRY. I am aware of that.

Mr. JACKOWSKI. No. 2, with respect to the March 28, 1989, memoranda, which was inserted during the course, into the record, during the course of Mr. Blum's testimony here on August 1, 1991. There are certain attachments to it which I believe were provided to Mr. Blum, and were provided to, and remain, not part of the public record.

I have seen those memoranda, sir. And those memoranda contain passages concerning efforts by certain individuals to get this committee to stop its investigation.

Senator KERRY. We are very aware of that.

Mr. JACKOWSKI. So that also happened. No. 3, sir, what I say Mr. Blum said, sir, was not only heard by me, but was, in fact, heard in substance by others, including Mr. Cook, Mr. Moore, and, I believe, to a certain extent, Mr. Rubinstein. They were interviewed, sir, by staffers of the House Banking Committee, the House Judiciary Committee; and, I believe, those debriefings were attended by Senator Brown's staffers.

Your staffers did not attend that, and I believe the substance of those remarks which I attributed to Mr. Blum were relayed by Mr. Moore and by Mr. Cook, during the course of those debriefings.

Senator KERRY. I am aware of that. We were told of that. Subsequently—

Mr. JACKOWSKI. The point is, you say that it is somewhat bizarre, which seems to me to indicate that perhaps what I am saying, in your mind, might not be so. I am citing these because they corroborate, sir, the words that I attribute to Jack Blum. In addition to that, sir, I did convey, in substance, what Mr. Blum had said to other individuals within my office. And, finally—

Mr. KEHOE. Let me say that I am one of those individuals that he told in the spring of 1989.

Senator KERRY. I understand that. But what I am getting at is that Jack Blum came to me, and talked to me about that, at that time. And what has gained some sort of—because a couple of people were talked to about it at the time, was, I think, a conversation that came out of London from a couple of lawyers, which we tried to pursue.

But the fact is that this Senator is the person that sent Jack Blum to you guys with all of this information, in an effort to try to get it prosecuted. And the fact is, as I think the record shows very clearly and always has, that Jonathan Winer and David McKeon were the personal staff who were working on this at the time, who have never stopped working on it, ever, at any moment in time.

And what grew, I think, out of the fact, and may be the single mistake of significance that we made at the time, was in concession to Senator McConnell, who had raised serious issues about the politics of the moment, and what was happening with respect in—and remember, you go back to 1988, which is when this was, and the hearings originally involved General Noriega and BCCI and the bank. And the allegations at that time which surfaced in a public flareup, were that the committee was somehow, you know, pursuing this on a political basis.

At which point, in June, prompted by Senator McConnell, and in agreement with him, I announced we were not going to have hearings for the duration of the electoral process, until the election was

over. And I think that grew into somebody's ability to say, aha, they are not going forward, and so forth.

But it is a matter of record that this effort has never, quote, shut down, and so any mythology about that is mistaken. And Jack Blum says that that is not what he said to you at the time. What he was relaying to you was what the rumor was out of London, which he relayed to me. And he wrote a memo to me at the time, in which he specifically said that you ought to be incensed by this et cetera, et cetera. And he went on to discuss what we had to do in order to combat that.

Mr. JACKOWSKI. Senator, I have read the memo. What I am telling you is that when Blum uttered these words that he was passing this information on to us.

Senator KERRY. But I am surprised you would not write that down. You write everything else down. Why would not something like that, as significant as it, is merit being reduced to writing. I am puzzled.

Mr. JACKOWSKI. Senator, you don't know what I write down and what I don't write down. And second of all, I remembered it and that's good enough for me. [Laughter.]

I do not find it to be a laughing matter, Senator.

Senator KERRY. I do not either, but that is precisely why I am laughing because I think it would be—I think it is so significant and of such consequence and particularly, I mean, look at this. You write here, Mr. Blum stated the ex-BCCI officials' motives are suspect and some of this information is secondhand.

Mr. JACKOWSKI. Blum said that, not me, Senator.

Senator KERRY. Correct. And Jack Blum says, absolutely, I said that. He says, so what. Carlos Lehder's motives are suspect, but you investigated him. And you used him and let me just finish for 1 minute, it is my turn to finish.

There is not one person who comes before the Government who is an informant whose motives are suspect and you disqualify them simply because the motive is suspect?

Mr. JACKOWSKI. You seem to believe, sir, that we disqualified the information that was relayed by this particular individual. I have told you under oath that we commenced a grand jury investigation.

Senator KERRY. Has the grand jury shut down or was the grand jury shut down?

Mr. JACKOWSKI. The grand jury was not shut down, the grand jury was temporarily suspended, or as Mr. Mazur put it there was a timeout.

Senator KERRY. When was it suspended?

Mr. JACKOWSKI. It was suspended, sir, in October 1989 and it resumed the investigation.

Senator KERRY. It resumed in 1991?

Mr. JACKOWSKI. No.

Senator KERRY. When did it resume?

Mr. JACKOWSKI. It resumed, sir, after I got back from a month vacation, in September 1990. That is when it resumed.

Senator KERRY. 1990, and it shut down when?

Mr. JACKOWSKI. It did not shut down. It was temporarily suspended in October 1989 and the reason, sir, one of the reasons in my mind why this particular individual's motives were suspect was

because I believed that there was a substantial possibility that this was a plant that BCCI was trying to invade the prosecutorial camp with.

I did not trust this particular individual. I thought that there was a substantial chance that we might make investigative disclosures to him, and this person might, in turn, go back to the network of the bank and tell them, all right, this is where the Government's coming from, this is where they are point at and this is where you guys need to be careful, that is one issue.

The other issue is by getting too close to this individual, the defense, had they found out about, had we had any untoward contacts with this individual, the defense could have made a motion that somehow we had invaded their defense camp because of that individual's close association with BCCI.

So we were cautious of this individual, sir.

Senator KERRY. Well, it is interesting to me. The district attorney in New York says that they viewed the story with some skepticism, but they interviewed him and additional witnesses and they looked at the documents and simply put, we investigated the case he brought to us and his story was proven to be true.

So I think there was just a difference of attitude.

Mr. KEHOE. No, Senator, that was after the Price Waterhouse report. That witness was discredited by the district attorney's office when he went to talk to them as well.

Senator KERRY. Which witness?

Mr. KEHOE. We are talking about the witness, the first witness that Blum brought down to Mr. Jackowski. It was only after they got the Price Waterhouse report that corroborated some information and convinced this guy to testify that it bore fruit, and as I said before, Senator, the fact that another prosecutor's office did, God bless them, they did a good job. I commend what they have done, but the timing of it is crucial. We did not have that report.

Senator KERRY. Well, it did still, I mean, I guess there is a puzzle here, but it is not my battle, it is something that Jack Blum feels very strongly about and I think he says he is going to respond and I am sure you will respond and you guys can go back and forth, but I thought he did very credible work and it is just sort of perplexing to me that somebody would not come to the committee and say, Senator, let me tell you what your investigator was saying.

Or let me tell you what is going on, and I sense that it was because there was just an adversarial sense about this thing, that the politics perceptions of what existed in 1988, which is why we suspended the hearings at that time and announced publicly we were doing so and it appeared in articles in the country, subsequently has been twisted into something different and regrettably, Jack, who did I thought extraordinarily credible work is now put in a position of somehow being attacked and having to defend himself.

Mr. JACKOWSKI. Senator, I did not attack Mr. Blum, I merely recited the facts as I know them to be, with respect to the notion that somehow politics entered into my view of Jack Blum. Senator, I am not a political person. I am a professional prosecutor. As a matter of fact, I remember having a phone call, several phone calls with you, back in January 1980 with respect to Lee Rich and Stephen Michael Khalish. I don't know whether you remember those or not.

Senator KERRY. I do recall those.

Mr. JACKOWSKI. It was rather late at night with respect to the production of Lee Rich and Stephen Michael Khalish before the subcommittee and they in fact testified before the subcommittee, along with Blandon, relative to goings on in Panama.

Senator KERRY. Well the problem still remains, I guess, and maybe it is a problem in a difference in perception or something here, but when I first instructed Jack Blum to reach out to you folks and to cooperate with you and to turn information over to you, it was my anticipation that there was going to be what we could perceive as a full-fledged effort that was going to put the case together.

And Jack came back to me, as did other people like David McCain here, who has, as I said, worked on this thing nonstop from when Jack Blum was with us, and it was their perception, continually, that there simply was not a major effort going to reach out to the people that we knew were within the bank or outside the bank. Now we can argue about that at length.

I think you have done a credible job of arguing your position and of setting forth what you have done and as you, not you, but as Mr. Mueller and I and others have discussed I think we all want to try and put an end to this process of the past and place some faith in the process of what is happening now and in the future, with an understanding that this thing is going to come to closure and that it is going to proceed but it is not say a small statement that there are significantly more attorneys, and significantly more assets, and significantly more investigators, and significantly more grand juries now working on it today than there were when this information was originally brought to you. And I think that is its own kind of statement.

Senator BROWN. Thank you, Mr. Chairman. I wanted to finish up on the Blum statements and quickly go through them and ask, if you would, to give us your observations with them and my purpose is frankly to have these statements side by side so that we have got a concern and the answer to it.

Mr. KEHOE. Yes, Senator.

Senator BROWN. The observation was made by Mr. Blum that, "no effort was made to prosecute the coffee-smuggling incident."

Mr. KEHOE. Senator, that particular investigation was not in the middle district of Florida, it never was in the middle district of Florida, so I mean with all due respect and clarification and again it goes back to my apples and oranges, type of analogy that I laid out before.

It wasn't in the middle district of Florida, from what I understand. It was a Miami case out of the southern district of Florida.

Senator BROWN. Are you aware if an effort was made to forward the appropriate information to the appropriate district?

Mr. KEHOE. It may have been, Senator, Mr. Blum spent a significant amount of time in the southern district of Florida. I was a prosecutor in the southern district of Florida for some time. Mr. Blum was down there quite a bit. I am sure that Mr. Blum forwarded that information to the U.S. attorney's office because candidly, Senator, he knew a lot of people in that office.

Senator BROWN. But by your offices, nothing was forwarded?

Mr. KEHOE. It didn't come to our attention, Senator. It wasn't on our plate.

Senator BROWN. The next one on page 62, quoting him further, "a review of the record indicates that no effort was made to prosecute any of the people involved until an IRS agent, almost at the end of the term of the grand jury, himself insisted that a case be brought against the arms smuggler who was involved in it."

Mr. KEHOE. I am not sure I understand that reference.

Senator BROWN. This again relates to the coffee.

Mr. KEHOE. Again, Senator, it was just reference to, that is, that particular defendant was not something in the middle district of Florida. That was in the southern district of Florida.

Senator BROWN. In the allegation on page 84, "there was never a serious effort to plea bargain the individual defendants."

Mr. KEHOE. Senator, that is absolutely categorically incorrect. Our plea bargain in the middle district of Florida is very firm and very stringent. And what our plea bargain is, is you plead to the indictment and then if you cooperate you engage in what is known as, I am sure the Senator knows, what is known as substantial assistance, and once you plead and once you demonstrate that you have cooperated, it is the Government's determination whether or not it will file a substantial assistance motion.

Congress has given prosecutors one of the best tools they have ever had with the change in 5(k)1.1 motions as well as rule 35 motions. That change comes as, that the Government has to make the motion to determine whether or not a defendant is going to get a substantial assistance motion. They have put that arrow, Congress has put that arrow in our quiver. They have the opportunity to come in and plead and cooperate. It was not forthcoming. They engaged in what Mr. Genzman referred to before as a scorched-earth policy, they were going to take us to the mat and so that is why we went to trial.

The policy was set out very clearly. There were negotiations with the various defense attorneys about pleading. They said we can't plead under those circumstances. It's better for our defendants to go to trial. They said, well, we accept that, we are professionals. Let the games begin. But to say that there was no concerted effort is just not so.

Mr. JACKOWSKI. Senator, let me try to add to that if I might. One of the aspects of plea negotiations is to attempt to obtain a proffer of what a defendant will say, in terms of his cooperation with the Government. With one exception, sir, all of the defendants through their counsel declined to provide us with a proffer of what their testimony might be. That's No. 1.

No. 2, they also, sir, had an unrealistic expectation of the amount of time to which they would be exposed to should they plead guilty. They wanted 5 years in jail. That is not in accordance with the middle district of Florida's plea policy and it is not in accordance with the Department of Justice policy relative to plea bargaining in sentencing guidelines cases.

No. 3, there was a fundamental difference of approach with respect to these defendants. My eye and my office knew these guys were no different than common dopers. Their defense attorney feared them as being the whitest of white-collar criminals. They

wanted these defendants treated as white-collar criminals. We were not willing to do that, sir. In addition, quite frankly, the defense attorneys, especially the ones from Washington, thought they could come down to Tampa and beat us.

Moreover, the defendants themselves thought that they had been victimized by the Government and were not guilty. Under all of those circumstances, that I have described, plus the policy considerations that Mr. Kehoe has described, we had to take them to trial. We did and we convicted them. And that strategy as Mr. Kehoe and Mr. Genzman have indicated has, in fact, borne fruit. Evidence the indictment, on seal by the middle district of Florida, on September 6, 1991.

Senator BROWN. Compare for me, if you would, the 5 years that they were willing to accept with what they got.

Mr. JACKOWSKI. I understand your question. Under the guidelines, sir. Under our calculations they were looking at somewhere, Mr. Awan and Mr. Bilgrami, as long as the narcotics conspiracy count was still in the indictment, were looking at between 20 and 30 years in prison. The other defendants were looking at between 5 and 15 or 16 years in prison.

Once the narcotics conspiracy count was no longer a factor, that exposure to prison would have been lessened. Ultimately, Mr. Awan and Mr. Bilgrami received sentences of 12½ years. So they were looking at the most between 12½ to 15 years, sir. Just given the money laundering counts, with the absence of a narcotics conspiracy.

But the plea negotiations were conducted under the proposition that they plead to the narcotics conspiracy because the judge had not yet at that time, issued his December 5, 1989, order.

Senator BROWN. Even with that major difference, they ended up with 2½ times as much time?

Mr. JACKOWSKI. That is correct. The more culpable defendants, Mr. Awan and Mr. Bilgrami, who were the ringleaders of the conspiracy who we were able to put our hands on.

Senator BROWN. Page 84 again, quote, "I find it hard to find why they are disinterested in 1988, but are so interested in January of 1990 that they give everything else away with respect to the bank." You have covered some of this. Any other comments?

Mr. KEHOE. I would reiterate what I said before. Mr. Blum is a private citizen. Mr. Blum is not part of the plea negotiations. Mr. Blum, quite candidly, Senator, doesn't know the facts, but he is making a public statement about them. With all due respect, it was just simply incorrect.

Senator BROWN. It is not my intention to administer water torture here.

Mr. KEHOE. I understand.

Senator BROWN. I think it is important for you to have an opportunity.

Mr. KEHOE. I mean, I understand and I appreciate that, Senator. And it is somewhat disturbing when someone gives an opinion and pontificates about a particular scenario about which they know very little, or nothing for that matter, not having been involved in those plea negotiations that I conducted, and that is what hap-

pened, and many of the comments that Mr. Blum put before this committee, with all due respect, are just totally incorrect.

Senator BROWN. Page 90.

Senator KERRY. If I could intercede there for 1 minute. I would be interested in having, and I am not going to trouble you with it now, but I would like to have an annotated listing, if you will, when you say the statements you put before are incorrect. If you could just submit that, I think that would be important to have for the record.

Mr. KEHOE. Absolutely, Senator.

Senator BROWN. Page 90, quote, "to finish their failings, as well as in the southern district of Florida, the southern district had been aware for at least 14 months, possibly longer, that CenTrust a very large S&L, \$2 billion down the hole, the president with a yacht as large as a destroyer, an office worthy of the Emir of Kuwait," I do not think he is describing a Senate office here—"this case has been in the hands of the U.S. attorneys, that was not his quote. This case has been in the hands of U.S. attorney for the southern district of Florida, there has yet to be an indictment."

Skip, "are there more important cases in the southern district than a \$2 billion S&L fraud type of criminal mess? What is he doing?" I appreciate that you are not representatives of the southern district of Florida, but a thought—

Mr. KEHOE. I can answer to a degree, I mean we are essentially in the third inning of a nine-inning game. I mean we have not cases under investigation. These are protracted, complicated investigations so much so, Senator, that Congress in the FIREA statute of 1989 and 1990 I believe it was, increased the statute of limitations to 10 years. This is tough stuff.

These matters are under investigation and they continue to remain under investigation as ongoing matters, and to say at any point that they have stopped and that nothing has happened is just totally incorrect.

Senator BROWN. Your point being, one, the statute of limitations has not run out and, two, they are under continuing investigation.

Mr. KEHOE. They are under investigation and Senator, but to be honest with you, with the complexity of bank failures and with this particular bank I am not sure, because I am not involved, but having been involved in bank failure investigations, they take up a tremendous amount of time from the local corner bank to the more, the bigger banks with branches around the country.

Senator BROWN. Thank you. Page 98. These remarks deal with the story of documents that have been turned over to the American Embassy in Panama, where they were shipped from Panama to Miami. When witnesses got to Miami and the DEA headquarters, the box had been opened and the documents were missing, as I understand it. The quote is, "the documents were missing. We raised it in the hearing, the DEA said we have an internal affairs investigation to my knowledge, the documents were never found and no one was ever prosecuted."

Mr. KEHOE. That occurred when I was in the southern district of Florida, Senator, and the prosecutor who was involved in that is Dick Gregory, a friend of mine, and he has been a friend for many years.

There was an investigation conducted by the southern district of Florida. Another friend of mine, who is an AUSA down there by the name of Bruce Udolf, conducted that investigation with the witness and with the witness and the agent that was involved, the conclusion was that while it appeared that the box had been opened, all the documents were there.

Apparently, the gentleman was confused because his wife had packed the box. He was in the United States. His wife had packed the box and he wasn't sure whether or not it was original documents or a computer printout. His wife had apparently put a computer printout in there, as opposed to the original documents, and once that was clarified the investigation was over.

Senator BROWN. You are saying the documents, in effect, were not lost?

Mr. KEHOE. That is correct. Now Senator, that was the conclusion of the U.S. attorney general's office as well as DEA and the witness himself.

Senator BROWN. Something you can help me to understand. This may well fit into the area of background more than anything else, but this is earlier testimony. Or I guess the prepared testimony that you had given us. It said Mr. Blum also obtained a copy of the draft of the Customs Service press materials based on confidential internal Department of Justice memorandum, at some point prior to the unsealing of the indictment.

Mr. Blum provided copies of these materials prior to the unsealing of the indictment to Robert Altman and his partner, John Kovin of the Clifford & Warnke law firm.

These materials later formed the basis of numerous pretrial motions which questioned the sufficiency of the Government's proof and its conduct of the undercover investigation. A serious charge. Tell me what you based those comments on.

Mr. JACKOWSKI. Sir, I based those comments on, No. 1, the fact that there was first of all there were motions, were in fact, motions alleging sufficiency of proof problems with respect to, at least one of the defendants.

Included within those documents was a statement authored by myself which was true at the time it was written that is July 21, 1988, that to date only six of the nine bank officers have been documented as having direct knowledge of the narcotics proceeds.

That was true in July 1988. It was not true at the time the indictment was returned, in October 1988. The reason it was not true is because we had obtained such evidence against such defendants by October 1988. That was essentially the problem.

The reason why I know this happened is because that specific comment within those documents did in fact form the basis of the Brady motion, and motions to dismiss.

Senator KERRY. Can I just intercede here? I was struck by that today and so when I called Mr. Blum this afternoon to enquire about the statements, Mr. Blum said that is building innuendo into a charge that is simply false. He says he was given the documents by Customs and they were the press release that Customs put out and that he personally, they were not secret. That is what he says. As I said I am going to let Jack Blum answer these things.

Mr. JACKOWSKI. Jack Blum does not have to defend himself on this point. That is the point I am trying to make if I can finish.

Senator KERRY. Well, it certainly reads in that way.

Mr. JACKOWSKI. I disagree that it criticizes Mr. Blum. Mr. Blum didn't leak those documents. Higher ups within the U.S. Customs Service leaked it. The reason why I know those documents were leaked is because attached to the Brady motion was a declaration by either Mr. Kovin or Mr. Altman to the effect that they got them from Mr. Blum before the unsealing of the indictment. That is one way I know it. The other way I know is it because Mr. Blum in fact told me that he got these documents from Customs.

Senator KERRY. That is what I am saying.

Mr. JACKOWSKI. He didn't think and there probably was no reason to believe that there was anything wrong with Customs giving him those documents. They were representative of the press package of Operation C-Chase. The problem with that, Senator Kerry, was that there were disclosures of these documents made to Mr. Blum and these documents were passed to the bank before the indictment was unsealed.

Senator KERRY. The way it was put here is that after a criticism of William Von Raab you talk about how incredible it is the lives of undercover agents are jeopardized and then you say Jack Blum, an investigator, also found out about the impending takedown in advance and Blum describes his knowledge and so forth and then you say he also obtained a copy and there is no context in which—

Mr. JACKOWSKI. Let me try to add the context. You had testifying in front of you today, Mr. Mazur. Mr. Mazur's life was at risk. The bottomline is no one had any business for whatever purpose to whomever leaking that investigation before those arrests were made. That is the point, Senator.

Senator BROWN. Let me see if I can understand what is being said here. A draft press release, disclosing important material was given to someone who gave it to a counsel, an attorney for related defendants—

Mr. JACKOWSKI. That is in essence what happened here. This is a long story. To try to give you the short, to try to give you a short version—

Senator BROWN. I am just trying to underline, the Customs Service would hand out draft press releases.

Mr. JACKOWSKI. I don't know the answer to that, Senator. I could only speculate on that.

Senator BROWN. But an undercover operation.

Mr. JACKOWSKI. I could only speculate on that, sir.

Senator BROWN. Is there any information on why Blum would pass it on to Mr. Altman or how is it that you know that?

Mr. JACKOWSKI. I know that because Mr. Blum told me he got it from Customs and gave it to Altman and Kovin and because Kovin and Altman filed the motion with a statement under oath by Mr. Kovin saying they got it from Mr. Blum. That's how it is that I know that.

Why Mr. Blum would do that, I believe he did that because at this time, this subcommittee was attempting to get information pursuant to its subpoenas from the Clifford & Warnke firm on

behalf of BCCI. And he wanted to share this with them as part of his effort to get his subpoenas or get this subcommittee's subpoenas complied with.

I believe, in substance, I don't know that but that seems to me the most logical reason why Mr. Blum would do that. And that's purely speculation on my part, with respect to Mr. Blum's motives.

Senator BROWN. Changing subjects on you for a moment. The question had been asked earlier about the takedown decision being influenced in Washington. I guess that the obvious questions that come to mind it how is a decision on the takedown made on Operation C-Chase?

Mr. JACKOWSKI. Sir, as I recall, there were discussions back in January 1988 between SAC-Tampa of Customs and also the ARCE-Miami of Customs. ARCE means Assistant Regional Commission for Enforcement for Customs in Miami, with respect to when the case was going to be taken down.

I believe, sir, it was as a result at least of those discussions that Customs came up with the view that the case should be taken down by October 1988.

I want to make the record perfectly clear on this. With respect to the timing of the takedown date, I personally supported that date because I felt that the goals of the investigation could be completed by that time, No. 1.

No. 2, in my view, the goals of the C-Chase investigation were concluded by October 1988. The reason for that is because the money laundering culpability of BCCI, which was the principal goal of the investigation as it in fact developed, had been established.

It was a goal of the investigation to investigate, in an undercover capacity, First American Bank. This was a money laundering investigation, not a bank takeover investigation as it was originally began, sir.

Senator BROWN. Who is it who made the decision?

Mr. JACKOWSKI. To take the case down in October 1988. The decision being made at one point in time, back in earlier during the year. Is that your question?

Senator BROWN. Well, the decision with regard to the takedown. Who made the decision?

Mr. JACKOWSKI. Senator, I can't answer that. You have to give me a timeframe. Or, if you won't—

Senator BROWN. In the February area.

Mr. JACKOWSKI. I don't know, sir. I believe that decision was made by SAC-Tampa in conjunction—special agent in charge of Tampa, in conjunction with the ARCE, Assistant Regional Commissioner for Enforcement in Miami, as well as in consultation with SAC's of other offices and ARCE's of other divisions of Customs that were involved in this operation.

I was consulted relative to the decision and I personally had no problem with the October 1988 date.

Senator BROWN. Do you have any information that would indicate someone in Washington made that decision?

Mr. JACKOWSKI. I don't have the information at all that someone in Washington made that decision. You have to realize that Customs is a bureaucracy and in a bureaucracy this was an important

case. And I'm speculating here and perhaps I shouldn't do this, but I would suspect that that is probably the type of decision that was probably discussed with officials of the U.S. Customs Service in Washington, DC. I don't know that. I want to make the record perfectly clear relative to that.

Senator BROWN. Thank you.

Senator KERRY. Gentlemen, just a few quick questions. Is this any problem, Mr. Kehoe, with, in respect to the plea agreement and a double jeopardy problem, subsequent prosecutions of BCCI?

Mr. KEHOE. In what respect, Senator?

Senator KERRY. Well, just a question of whether or not it is being exposed for fundamentally the same crime and tried again on the same basis.

Mr. KEHOE. Senator, I mean if, the Blockburger test obviously has a different element of the offense than—if there is an element of an offense that is different, then there's not going to be any double jeopardy problem.

Now, for instance, the particular case—say, for instance, that the bank and several individuals are charged with, you know, a RICO out of some other place, say, out of one of the districts that's currently investigating it. There would be no double jeopardy.

Senator KERRY. Has this been raised?

Mr. KEHOE. Oh, sure, we've discussed it at length within the Department.

Senator KERRY. Has it hampered any prosecutions in any other districts?

Mr. KEHOE. No, we've discussed this particular issue at length, Senator, with Mr. Miller in his meetings with other U.S. attorneys, recently, I might add, on that particular issue and with the fraud section, et cetera.

Senator KERRY. Is Justice satisfied that this issue is not going to be an impediment?

Mr. KEHOE. I think that every time you have a case, it is going to have to be addressed. I mean, as we move up the line, we talk about a particular indictment. Could we envision a situation where it could be a double jeopardy?

I will give you an example, Senator. As you know, with chips and money coming in and out of the United States, that technically is the jurisdiction of the southern district of New York for many of the money laundering activities that took place in the middle district of Florida. Certainly, if they turned around at that point and decided they were going to put some type of 1956 case or 371 case together, based on those transactions, it would clearly be double jeopardy.

Senator KERRY. Are you currently receiving adequate cooperation from BCCI with respect to as per the agreement?

Mr. KEHOE. They have been cooperating with us, Senator.

Senator KERRY. They are cooperating.

Mr. KEHOE. Yes.

Senator KERRY. And has that information led to any other drug traffickers being prosecuted?

Mr. KEHOE. I'm going to have to decline to answer that, Senator. I will say this, Senator. In a broad sense, the cooperation's been fruitful.

Senator KERRY. Mr. Morgenthau testified before us in May and at that time, Mr. Genzman, he told us that he had written to you a letter on March 8, asking for certain documents. Have those documents been provided to him?

Mr. GENZMAN. I believe that has been cleared up, Senator. I don't believe at that time I was aware of what the issue was and I was somewhat surprised. But the explanation I gave then was that around that time, the Department of Justice in Washington was coordinating with his office and it might have been that that was referred by our office, his request was referred by our office, without my even seeing it to the Department of Justice.

Not having heard any further on that, my assumption is that that is no longer an issue. As a matter of fact, we have had some regular contact with Mr. Morgenthau's office on ongoing cooperation and that has not come up.

Senator KERRY. You do not know whether or not, do you know, Mr. Kehoe, have those documents been provided?

Mr. KEHOE. Senator, you're going to have to reference me to the particular documents that we're talking about. I know that we have been—we have had steady contact with Mr. Morgenthau's office. As I think I spoke to one of your staffers consistent with some of the contact that we have been having concerning a witness and the need.

And Mr. Morgenthau's office is assisting us in this regard because we have a mid-January trial date on a particular witness. He wants to use him.

Senator KERRY. Is that Chinoy?

Mr. KEHOE. That's the one.

Senator KERRY. Can Chinoy be made available to him?

Mr. KEHOE. Yes, Senator. He has been down to the middle district of Florida to debrief him. The issue is whether or not if he goes to New York, the defense is going to attempt to use his transfer to New York as a postponement of his trial or his plea.

We have been in contact with Mr. Morgenthau's office and they have said yes. We don't want to let that happen.

Senator KERRY. The point is, that is not an issue.

Mr. KEHOE. It's not an issue.

Senator KERRY. Fine. Have the foreign bank secrecy and confidentiality laws stood in the way of BCCI cooperating with you folks in a meaningful way?

Mr. KEHOE. It has been an issue that has come up, Senator, I must say, but we have been able to work around it in several respects. But I will tell you that it has come up candidly.

Senator KERRY. And when you say it has come up, it is, in fact, substantively a problem.

Mr. KEHOE. Well, the view of some of some BCCI was, well, you know, this might be a crime in a particular jurisdiction. How can we get around this? Normally, what happens is you go to the country and have the particular institution and they say, well, we don't mind doing this.

Senator KERRY. So, you are not finding it an impediment.

Mr. KEHOE. Yet.

Senator KERRY. And are there any occasions where BCCI has failed to provide you with documents you are seeking?

Mr. KEHOE. Without going into the nature and extent of the whole operation, we have asked them for some documents and asked them for supplements. And if you say, we want something out of the chute and this isn't everything we wanted, we have to go back and forth. I mean, certainly that has happened, Senator, with every institution, every defendant that I've ever had that has cooperated with us. You have this tug back and forth where you say, we want this and they give you this and you say we want in addition to that.

Senator KERRY. I hesitate to say this in front of a couple of people who seem every bit as skilled as any Senator in keeping the floor, but is there anything that you have not had a chance to say that you are frustrated about or that you particularly think you have a chance to lay on the table?

Mr. KEHOE. We have a charge to talk now, Senator. Is that what you're saying?

Senator KERRY. With some limitations. Mr. Kehoe, I think you have had enormous—if we really break this record down, I would suggest that you have probably dominated the day in terms of time to talk.

But if you have anything that you would like, at this point, that you feel you have not had a chance to say, open season.

Mr. GENZMAN. Thank you for your time, Senator.

Senator KERRY. This has been the easiest afternoon you have had, Mr. Genzman.

Mr. GENZMAN. I would defer to my colleagues on many issues such as these and I'm proud of the fact that they've been able to field these questions better than I could.

Senator KERRY. Mr. Jackowski?

Mr. JACKOWSKI. Senator, all I can say is as I told you before, I do appreciate the opportunity to be here and it has been an educational process for me and I hope for you, as well and for the record.

Senator KERRY. I beg your pardon.

Mr. JACKOWSKI. I hope it's been educational for the record, because quite frankly, I think it is important that the record be complete with respect to some certain aspects of the hearings that these subcommittee has previously conducted and I think that was one of the things that we tried to do here today.

Senator KERRY. Well, I appreciate that. Let me say to you that I think there are still issues on the table that need to be sorted out in terms of who is saying what and I am not going to dig here in every aspect of that now. But I do think it would be very helpful for you and I would like for the committee to have your assessment of where statements have been made that are just inaccurate according to you.

And if you would show what the inaccuracy is, then that would give us a chance to evaluate that, which we will do. And I hope that over the last couple of years that we have gained some reputation for fairness and being straightforward on this.

I will draw a conclusion and I will have an opinion and I do not hesitate, as you know, to say it when I feel it. But I also am perfectly willing to admit if we have screwed up or misread facts or not done something correctly. I still stand by some strong feelings

that I have, but on the other hand I think you have explained some of the decisions you have made.

They may be some very legitimate differences of opinion as there often are in how someone approaches a case or what somebody thinks, the relevancy of one thing is versus the relevancy of another. And those are things human beings can differ on and that is what makes our system of government interesting.

I appreciate very much your being here and I say again, and I do not, I am not kidding when I say this. I truly respect your undertakings, your commitment, the job that you have done and I think, there is no question in my mind, how hard you folks have worked at this. So that is not the issue as far as I am concerned.

There are other judgmental issues, but those are always on the table. And reasonable human beings can differ about those kinds of things. But I certainly respect your work and I do credit the fact that you had a successful prosecution. The only question some people have is, as Bob Mazur suggested, could it have been more, might it have been. Who knows. And those are the questions that we all face in this process.

Senator Brown?

Senator BROWN. Mr. Chairman, I understand earlier in the hearing that a question regarding why Mr. Jackowski would leave Florida and move to Colorado came up. [Laughter.]

I, for one, think he showed great judgment in that decision. [Laughter.]

It is very difficult to snow-ski in Florida and of course, the quality of football is not nearly as good. [Laughter.]

Seriously, we look at this with some benefit of hindsight or at least I am speaking for myself, because, as you know, the chairman has been involved in this from the earliest date.

And we, I think, of necessity, are focusing on areas where we can change the law, where we can improve the process and procedures to find out why things did not get done more quickly. And that I think is our responsibility. But I hope you do not mistake that enthusiasm for our job as a personal criticism of any of you.

The reality is, as I understand it, you have gotten the No. 1 conviction for money laundering in this Nation's history under your belts. You have achieved an award that is dramatically bigger than anything that has ever been won in that area. And there is no question that you have worked very hard in this.

So I hope, as you leave today, you will not come away with the feeling that we do not appreciate what clearly is a very spectacular case that has come to rest and our enthusiasm to see if there are not things that can be done to improve the process is not meant as a personal criticism for any of you or for the devotion that you have shown for your job.

Senator KERRY. The only comment I would add to that is that I am confident that there are going to be additional indictments. I do not have any question about it. I hope there is not going to be too much delay in some of them that some people seem to have a feeling that could be ripe now perhaps and maybe we can talk about privacy here.

But I think that there will be more indictments. I have no question. You have got a lot of people working on this now. But my ob-

servation stands that I wish there would have been that many people working on it or I wish we would have had the power of that grand jury back a couple of years ago, because I truly believe there was a lot to lay on the table at that point in time.

Now that is not, you do not control that. You are operating without a lot of resources. And, if anything has been underscored in this, both this morning and this afternoon, it is the real handicap of this process, of a couple of people working long hours and a couple of investigators who have almost got to suspend an investigation in order to prepare for a trial and go back.

There is not a defense attorney out there who does not understand it and there is not a corporate defendant out there who does not understand it, which is why they are prepared to spend \$40 million hiring 23 attorneys to stand up against you alone. And the imbalance of that—

Mr. JACKOWSKI. It was a fair fight, Senator. [Laughter.]

Senator KERRY. You do not hire them with any ego, do you, Mr. Mueller? But that is what makes you capable of doing what you do.

Gentlemen, I really appreciate the time and the effort and thank you for your patience and I particularly want to thank your boss, Mr. Mueller, for his patience. His hair has gotten grayer even sitting here this afternoon and we appreciate it. Mr. Mueller, if you want to come up and take a seat, the rest of this panel will be excused and we will try to get through here as rapidly as we can.

Mr. Mueller, let me ask you to rise. Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MUELLER I do.

Senator KERRY. I know you have an opening statement. You may proceed.

TESTIMONY OF ROBERT S. MUELLER, III, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF JUSTICE, WASHINGTON, DC

Mr. MUELLER. Mr. Chairman, as you know, I'm the Assistant Attorney General in charge of the criminal division of the Department of Justice. I am pleased today to have the opportunity to address the Department's role in the investigation of the Bank of Credit and Commerce International.

I've been Assistant Attorney General since the fall of 1990 and I've been personally involved in the BCCI investigation since the summer of this year. My principal role over the past few months has been to oversee the ongoing Federal investigations and make certain that the investigations are conducted professionally, are properly organized and coordinated, and the prosecutors have access to all the necessary resources to do a responsible, professional investigation.

I have been involved almost continuously in Federal law enforcement since I became an assistant U.S. attorney in the 1970's. The BCCI investigations have been and will continue to be, as long as I am involved, conducted by the Department of Justice prosecutors according to the highest standards.

This matter is, I know the subcommittee is aware, is extraordinarily complex, one of the most complex investigations ever undertaken. That is not said as an excuse or a defense, but simply as a

fact. Further, as has been pointed out previously, it is premature in our view to assess our performance. We cannot even fully respond to criticism because we cannot reveal grand jury proceedings or the details of our investigations.

Indeed, I must say, I find myself and we find ourselves in much the same position in this investigation as we found ourselves in the Pan Am 103 investigation, maybe 1 year ago. We then had many critics of the Pan Am 103 investigation. Reporters and others, including Members of Congress, were critical of the delay in reaching a conclusion to that investigation.

There are allegations of a political agenda driving that investigation. And we are unable to defend ourselves because the investigation was ongoing. As in the Pan Am 103 investigation, I believe our record will speak for itself when the BCCI investigations and prosecutions have concluded.

The record also showed that the criticism of the Department on its handling of the BCCI investigations, those criticisms are fundamentally unfair. The Department of Justice was conducting a major investigation of BCCI as early as 1987 in Tampa, FL. U.S. attorney Robert Genzman and his assistants have, I must say, quite ably discussed that prosecution at length and quite clearly, there's no need for me to review their testimony.

The investigations did not stop with the sentencing of the defendants in Tampa in November 1990. Since July 1991, the Department of Justice has returned two major indictments. One is the September 5, 1991, indictment in Tampa, alleging racketeering and money laundering offenses. The other is the November 15, 1991, indictment in Washington, alleging racketeering and other offenses based on the secret acquisition and control of Independence Bank and the parking of securities in CenTrust.

They were not our first BCCI indictments. They are not expected to be the last. We are pursuing all leads aggressively in every corner of the globe.

I want to turn now to some of the criticisms that have been leveled at the Department of Justice over the past few months. One charges that the Department was deliberately dragging its feet in pursuing allegations of criminal wrongdoing by BCCI. The allegation that prosecutors have deliberately failed to do their duty is absolutely and categorically false.

The report regarding BCCI, released by the majority staff of the House Judiciary Subcommittee on Crime and Criminal Justice, on September 5, 1991, found no evidence of any influence peddling affecting the Justice Department's handling of this case. And to my knowledge, no one in Government, within or without the Justice Department, has made any attempt to delay or bog down this investigation or to protect any persons from being prosecuted. Nor, to my knowledge, has anyone in the Department or in any other agency attempted to conceal any wrongdoing by the bank.

With the benefit of hindsight, it is easy to forget that BCCI is and was a foreign institution, largely operating outside the United States. It was permitted to accept deposits in the United States and had very few offices and employees here. Although it secretly acquired interests in American banks, many of the key events, even regarding those transactions, occurred overseas.

BCCI was not an ordinary bank. It was set up deliberately to avoid centralized regulatory review. Its officers were sophisticated international bankers whose apparent objective was to commit fraud on a massive scale.

And what is often overlooked is that, to a great extent, the regulatory process in the United States worked properly. The Federal Reserve, to its immense credit, did its job, unlike many of the nations in which BCCI did do business. The United States did not permit BCCI to take deposits from its citizens. Whatever massive fraud may have been perpetrated against depositors overseas, no such fraud occurred in the United States.

While it is true that BCCI was able to acquire secret interest in several federally insured American banks, notwithstanding the efforts of the Fed, the exposure of American citizens to financial losses could have been dramatically higher.

Now the Department has been criticized for purported delays in bringing the indictments against BCCI and its officers, and I must say that the claim is simply untrue. The Department has now brought three major indictments of BCCI beginning with the first Tampa indictment in 1988 and continuing up to last week. Each of those indictments was brought when the evidence had been developed sufficiently to support the charges.

Indeed, the Department has moved with remarkable speed, given the complexity of the matters involved. The Department, in the form of the U.S. attorney's office in Tampa, was quick to follow up on additional leads coming out of the Tampa convictions of November of last year. And this last August and September, a followup money laundering indictment was returned and unsealed.

Last week, we returned an indictment charging BCCI with illegally obtaining control of Independence Bank operating out of Encino, CA. It was only in May of this year that we received the referral from the Federal Reserve on this bank. Again, as I've indicated before, the Department fully expects to bring additional indictments over the ensuing months.

The Department is aggressively pursuing all allegations of wrongdoing of BCCI and its employees. It is conducting investigations through a Washington-based task force, and in a number of U.S. attorneys' offices. At present, 37 Federal prosecutors, supported by dozens of agents and supervisory and support personnel, are conducting or supporting investigations nationwide. Two major indictments are pending and others will likely follow.

The Washington task force alone has interviewed dozens of witnesses and returned tens of thousands of pages of records. It is interviewing witnesses and securing evidence in locations such as Britain, France, Abu Dhabi, Pakistan, Egypt, the Cayman Islands, the Channel Islands, Argentina, Peru, and other countries.

In conclusion, Mr. Chairman, I want to reiterate that the Department of Justice has been working on the BCCI matter since 1987. We have obtained significant convictions already. We have two major indictments pending and we are devoting the resources necessary to ensure that if there is additional wrongdoing yet to be uncovered, it will be pursued professionally, relentlessly, and impartially, wherever it may lead.

Thank you for the opportunity to give those opening remarks, Mr. Chairman, and I'm certainly pleased to answer any questions you might have.

The prepared statement of Mr. Mueller follows:]

PREPARED STATEMENT OF ROBERT S. MUELLER III

Mr. Chairman, my name is Robert S. Mueller III. I am the Assistant Attorney General in charge of the Criminal Division of the Department of Justice. I am pleased to have this opportunity to address the Department's role in the investigation of the Bank of Credit and Commerce International ("BCCI").

I have been Assistant Attorney General since the fall of 1990, and I have been personally involved in the BCCI investigation since the summer of 1991. My principal role over the past few months has been to oversee the ongoing federal investigations, and to make certain that the investigations are properly organized and coordinated, that they are being conducted professionally, and that the prosecutors have access to all the resources necessary to do a responsible and professional investigation.

Before I describe the current status of the investigations, and review some of the Department's past efforts, I want to make several points.

First, I consider myself to be a law enforcement professional. I have been involved almost continuously in federal law enforcement since I became an Assistant U.S. Attorney in the early 1970's. The BCCI investigations have been, and will continue to be as long as I am involved, conducted by professional prosecutors according to the highest professional standards.

Second, to my knowledge no government official—not at the State Department, the White House, the CIA, or anywhere else—has attempted to influence these investigations in any way. Furthermore, there is no political component to these investigations, and any suggestion to the contrary is entirely false.

Third, we are responsible, ethical prosecutors. We will not indict simply to get favorable press coverage or to quiet our critics. We require evidence sufficient to prove a crime beyond a reasonable doubt, and we will not indict if that evidence does not exist.

Fourth, this matter is extraordinarily complex—one of the most complex investigations ever undertaken. That is not an excuse or a defense, but simply a fact. It is unrealistic to expect overnight results if we are to maintain professional standards.

Finally, it is premature to assess our performance. We cannot even respond fully to criticism, because we cannot reveal grand jury proceedings or the details of our investigations. Our record when the investigations and prosecutions have concluded will speak for itself.

I believe that a fair review of the available facts will show that the Department of Justice has done an excellent job on the BCCI investigations, and that the criticisms of the Department are fundamentally unfair. The career, professional prosecutors whom I represent here today are proud of their accomplishments thus far, and I am confident that a complete review of the factual record will support that conclusion.

THE TAMPA PROSECUTION AND SUBSEQUENT INDICTMENTS

As you know, the Department of Justice was conducting a major investigation of BCCI as early as 1987 in Tampa, Florida. U.S. Attorney Robert W. Genzman and his assistants have discussed the Tampa prosecution at length, and I will not repeat their testimony. I do want to emphasize, however, that the Tampa prosecutions were a success. The Department of Justice convicted the bank and five high-ranking officials of serious crimes—something no other law enforcement agency in the world has been able to do. We obtained the largest monetary penalty that has ever been imposed on a financial institution for money laundering in this country. The five BCCI officers all received substantial prison terms ranging up to 12½ years without parole.¹ We are the only law enforcement agency in any country to have achieved such a result against this bank, and we are proud of that accomplishment.

The investigations did not stop with the sentencing of the defendants in November, 1990. Since July, 1991, when I became personally involved in the BCCI investigations, the Department of Justice has returned two major indictments: the Septem-

¹ Of the remaining seven individual defendants in the first Tampa indictment, two were convicted in Great Britain on evidence supplied by the U.S. Government; one had his case dismissed before trial; three are fugitives; and one has recently been extradited by Great Britain to the United States to stand trial in Tampa.

ber 5, 1991 indictment in Tampa, alleging racketeering and money laundering offenses, and the November 15, 1991 indictment in Washington, alleging racketeering and other offenses based on the secret acquisition and control of Independence Bank and the "parking" of securities in CenTrust. Those indictments were not the first BCCI indictments, and they are not expected to be the last.

We are pursuing leads aggressively in every corner of the globe. We will follow the evidence wherever it may take us. And we will make every effort to bring to justice any person, regardless of his or her rank or position of influence, who has committed a crime that can be proven beyond a reasonable doubt in a court of law.

I want to turn now to some of the criticisms that have been leveled at the Department of Justice over the past few months.

ALLEGED DELIBERATE "FOOT-DRAGGING" BY THE DEPARTMENT OF JUSTICE

One of the most frequently-repeated charges has been that the Department of Justice was deliberately "dragging its feet" in pursuing allegations of criminal wrongdoing by BCCI. One witness has even accused the Department, before this very Subcommittee, of being under the sway of so-called "influence peddlers" who somehow corruptly persuaded us to ignore our duty to enforce the criminal laws of this country.²

The allegation that prosecutors at the Department of Justice have deliberately failed to do their duty is absolutely and categorically false. The Staff Report regarding BCCI released by the Majority Staff of the House Judiciary Subcommittee on Crime and Criminal Justice on September 5, 1991 (the "Schumer Report") found no evidence of any "influence peddling" affecting the Justice Department's handling of this case.³ Nor has this Subcommittee, or any other congressional committee, uncovered any such evidence.

To my knowledge, no one in government, within or without the Justice Department, has made any attempt to delay or block this investigation or to protect any persons from being prosecuted. Nor, to my knowledge, has anyone in the Justice Department, or in any other agency, attempted to conceal any wrongdoing by the bank. At all times, for the past 4 years, the career prosecutors in the Department of Justice have been doing what they are compelled by their oaths of office to do: to investigate and prosecute criminal activity in a professional and impartial manner.

The claims that Department prosecutors have deliberately failed to prosecute the bank because of "influence peddling" are not merely inaccurate. Those allegations insult the integrity, and denigrate the hard work, of every career law enforcement agent and attorney who has worked on the BCCI case since it began, and whose diligence has led to the only successful prosecution of BCCI and its officers to date.

ALLEGED FAILURE TO BRING TIMELY PROSECUTIONS

Among the principal criticisms of the Department of Justice's performance have been that the Department failed to react quickly enough to so-called "strong leads" and "warning signs" regarding BCCI; that the overall federal effort was not sufficiently coordinated; and that the Department has, and continues, to engage in inordinate delay in the bringing of indictments.

A proper understanding of what the Department of Justice did, or did not do, regarding BCCI requires an initial understanding of a number of different matters: the structure and operations of the bank, the dates that allegations of crimes were made to the Department, and the respective roles of prosecutors and bank regulators.

1. *The Structure and Operations of the Bank.* With the benefit of hindsight, it is easy to forget that BCCI is and was a foreign institution, incorporated, headquartered, and largely operating outside the United States. It was not permitted to accept deposits in the United States, and had very few offices and employees here. Although it secretly acquired interests in American banks, many of the key events, even regarding those transactions, occurred overseas. More importantly, most of the witnesses, documents, and defendants were and remain outside the jurisdiction of the United States.

² Testimony of William von Raab, Senate Foreign Relations Committee, August 1, 1991, transcript at 81-82 (morning session).

³ "Subcommittee Staff Report Regarding Federal Law Enforcement's Handling of Allegations Involving the Bank of Credit and Commerce International," September 5, 1991, at 23 ("... no evidence has yet been uncovered that would indicate that so-called 'influence peddling' affected the outcome in Tampa").

Equally important, BCCI was not an ordinary bank. It was set up deliberately to avoid centralized regulatory review, and operated extensively in bank secrecy jurisdictions. Its affairs are extraordinarily complex. Its officers were sophisticated international bankers whose apparent objective was to keep their affairs secret, to commit fraud on a massive scale, and to avoid detection.

2. *The Timing of Allegations of Criminal Activity.* The allegations of criminal activity by BCCI and its officers may be grouped into three sets of charges: money laundering of narcotics proceeds and other illegal activities; regulatory violations involving the secret ownership and control of American banks; and a worldwide bank fraud on depositors and creditors, in the nature of a "Ponzi"-type scheme.

a. *Money Laundering.* Virtually all of the information coming into the Justice Department regarding BCCI prior to 1991, with only a few exceptions, concerned some form of money laundering—the offense for which the bank was prosecuted in Tampa. The case in Tampa was an enormous undertaking, and may be fairly said to be one of the largest money laundering prosecutions in U.S. history. Furthermore, the Department of Justice outside of Tampa did not simply ignore other information it received regarding BCCI's money laundering activities; when evidence existed, cases were prosecuted.

b. *Secret Ownership of Banks.* The statements on the Tampa tapes in 1988, and the subsequent information obtained from a confidential informant in 1989, suggesting that BCCI secretly owned American banks were the first indications of criminal activity by BCCI other than money laundering. That information—which was extremely limited, and consisted principally of rumors, gossip, and hearsay—was referred to the Federal Reserve in December 1988. The Federal Reserve, however, was not able to collect enough evidence to satisfy even a civil standard of proof until July, 1991, after it had reviewed a copy of the Price Waterhouse report in London in December 1990.

c. *The Worldwide Bank Fraud.* Evidence regarding the so-called "Ponzi Scheme"—the allegation that the entire operation of the bank was a gigantic fraud—was not known to anyone in the government until the bank's own auditor, Price Waterhouse, uncovered the information in June 1991. In other words, auditors working inside the bank, with access to internal foreign bank records and officials in foreign jurisdictions, were apparently unable to discover the problem until the middle of this year. It is unrealistic to expect that U.S. officials could have reached the same result any sooner.

3. *The Roles of Prosecutors and Bank Regulators.* What is often overlooked, in the effort to fix blame for what happened in this case, is that to a great extent the regulatory process in the United States worked properly. As a foreign bank, BCCI's presence here was regulated by the Board of Governors of the Federal Reserve. And the Federal Reserve, to its immense credit, did its job. Unlike many of the nations in which BCCI did business, the United States did not permit BCCI to take deposits from its citizens. Whatever massive fraud may have been perpetrated against depositors overseas, no such fraud occurred in the United States. And whatever massive losses depositors may have suffered overseas, no such losses occurred here.

While BCCI may have acquired secret interests in several federally-insured American banks, notwithstanding the efforts of the Fed, the exposure of American citizens to financial losses could have been dramatically higher. The Federal Reserve refused time and again to permit BCCI to accept any deposits in the United States. What agencies and branches it was permitted to open were allowed only to make loans and otherwise to serve the customers of its overseas offices. American depositors were thus spared the devastating personal losses caused by the bank in other countries around the world.

The work of the Federal Reserve has been largely overlooked in the rush to criticize the federal government's performance in the BCCI matter. What is also overlooked, however, is that the Department of Justice is not a bank regulatory agency. The Department of Justice does not audit or examine banks. It has no power to regulate the conduct of banks, or even to close them in the wake of criminal activity. It must prove its charges beyond a reasonable doubt, not according to the lower civil standard of proof enjoyed by bank regulators.

With that framework in mind, I want to turn to some of the specific criticisms that the Department has not brought timely prosecutions against BCCI or its officers.

ALLEGED FAILURE TO HEED "STRONG LEADS" AND "WARNING SIGNS"

One of the principal criticisms of the Department of Justice has been that it ignored so-called "strong leads" and "warning signs" regarding BCCI. As I have stated, virtually all of the "leads" and "signs" coming into the Department of Jus-

tice prior to 1991 appear to have involved money laundering activity, and the bank was prosecuted aggressively for money laundering crimes.

The chief criticism, however, has been that the Department of Justice failed to follow through on evidence that it received, beginning in 1988, that BCCI secretly owned American financial institutions. I understand that the testimony of Mr. Genzman and his assistants has addressed this point, and so I will be brief.

To my knowledge, the Department of Justice learned for the first time in 1988, through statements made by BCCI officer Amjad Awan to the undercover agent in the Tampa case, that BCCI might secretly own American banks. The essence of the information received by the Department of Justice regarding the allegations of secret ownership was passed on to the Federal Reserve after the October 1988 take-down of the undercover case.

The Department was not telling the Federal Reserve, however, anything which the Fed did not already suspect. When, on December 27, 1988, one of the IRS agents assigned to Operation C-Chase phoned the Federal Reserve and passed the information along,⁴ the Fed noted that the information was uncorroborated,⁵ and that it was the "kind of allegation that [they] had heard before."⁶ Nevertheless, the Federal Reserve in Richmond initiated an investigation in January, 1989, but that review did not produce any corroborating evidence.⁷

According to the Federal Reserve, the key piece of evidence that enabled them to establish the connection between BCCI and First American came late in 1990 in the form of a tip concerning a previously unknown Price Waterhouse auditor's report dated October 3, 1990.⁸ Before that report's existence was known, the evidence of BCCI's ownership of First American simply was not there—even to satisfy the Federal Reserve's lower civil standard of proof, much less the rigorous criminal standard.

It is therefore very questionable, to say the least, whether a greater exchange of information between law enforcement and bank regulators would have made any material difference. While it is easy to claim, in hindsight, that evidence sufficient to support a criminal conviction could have developed long ago, that is sheer speculation, not a valid criticism.

ALLEGED LACK OF COORDINATION

A further criticism of the Department of Justice has been that it failed to coordinate properly with other federal agencies in the pursuit of BCCI's criminal activities. In evaluating the accuracy of that criticism, some important points must be borne in mind.

First, the Department of Justice cannot freely exchange information with other federal agencies. For example, the Department cannot reveal the existence of evidence obtained in undercover investigations until the investigation is completed and arrests have been made. It is prohibited by law from revealing grand jury information. And it cannot reveal confidential law enforcement information to other agencies other than for criminal law enforcement purposes.

Second, other agencies have restrictions on the exchange of information which prevent the free flow of information. For example, there are strict restrictions on the dissemination of classified information. Disclosure of tax information is governed by an elaborate set of statutory restrictions. The Privacy Act prohibits disclosure of certain types of information. Even a seemingly simple exchange of information, such as the sharing of computerized law enforcement information, may raise profound privacy concerns.

Third, federal law enforcement functions are deliberately spread among a variety of different agencies. The Department of Justice itself vests substantial law enforcement authority in the 93 U.S. Attorneys in districts around the country. That decentralization of law enforcement provides great benefits in terms of efficiency and response to local needs, but also may create coordination problems in the initial stages of a large investigation.

⁴ Testimony of Virgil Mattingly, Senate Banking Committee, May 23, 1991, at 125; Testimony of Virgil Mattingly, Senate Foreign Relations Committee, August 1, 1991, at 56 (afternoon session).

⁵ Testimony of William Taylor, Senate Foreign Relations Committee, August 1, 1991, at 56 (afternoon session).

⁶ Mattingly testimony (5/23/91) at 125.

⁷ Mattingly testimony (5/23/91) at 126; Mattingly testimony (8/1/91) at 56 (afternoon session).

⁸ Mattingly testimony (5/23/91) at 123 ("That's when all of this thing came together."); *id.* at 130; Mattingly testimony (8/1/91) at 35 (afternoon session); Testimony of Robert Morgenthau, Senate Banking Committee, May 23, 1991, at 176.

The Department of Justice clearly recognizes the need to ensure adequate inter-agency coordination and communication. The establishment of the Interagency Bank Fraud Enforcement Working Group in Washington, DC, was an important step forward in improving the government's response to financial institution crime, as was the recent establishment of the Financial Crimes Enforcement Network (FinCEN).

An examination of the Department's response to matters such as BCCI must, however, be tempered by practical considerations. It is unrealistic to expect that a criminal matter of this magnitude can occur, over the course of a decade and in 70 different countries, and later be investigated and prosecuted by law enforcement officials acting in perfect synchronization from the very beginning.

ALLEGED "DELAYS" IN BRINGING INDICTMENTS

The Department has also been criticized for its purported delays in bringing indictments against BCCI and its officers. Those criticisms have been strongest in recent weeks, in the wake of various congressional hearings and media reports of misconduct by BCCI and its employees.

The claim that we have not brought indictments quickly enough is simply untrue. The Department has now brought three major indictments of BCCI, beginning with the first Tampa indictment in 1988, and continuing up to last week. Each of those indictments was brought when the evidence had been developed sufficiently to support the charges, and not earlier.

I want to emphasize again that BCCI was deliberately structured to evade regulatory review throughout the world. Even Price Waterhouse, the bank's own auditors—working inside the bank, with access to records and witnesses worldwide—apparently could not uncover the fraudulent nature of the bank's affairs until mid-1991.

I also want to emphasize that this investigation involves, to an unusual degree, matters occurring outside the United States. Most of the defendants, witnesses, and documents in this case are located overseas, frequently in bank secrecy jurisdictions (such as the Cayman Islands) or countries with which we do not have an extradition treaty (such as Abu Dhabi). It is extremely time-consuming, and sometimes very difficult, to piece together such a case.

The Department fully expects to bring additional indictments over the ensuing months. However, international and multijurisdictional investigations such as this, involving complex financial transactions occurring around the world, are extraordinarily complex and time-consuming. The Department cannot and will not indict on rumor, speculation, or hearsay. We require legally admissible evidence sufficient to establish guilt beyond a reasonable doubt. We will not indict simply to obtain favorable press coverage, or in response to political pressure.

CIA REPORTS

Let me now turn briefly to the issue of the CIA's involvement regarding BCCI. First, much has been made of the fact that the CIA apparently produced and circulated reports relating to BCCI in the 1980's. For example, Mr. Von Raab has testified that in 1988 he was given a 1986 CIA report describing the "questionable" and "criminal" activities of the bank.⁹ Regrettably, the Justice Department was not on the CIA's dissemination list for BCCI reports until 1990, and therefore the Department never received this 1986 report at the time it was disseminated.¹⁰

In any event, Mr. William Taylor of the Federal Reserve has testified that the 1986 report contained undocumented evidence that could not be followed up,¹¹ and Mr. Von Raab himself told the Senate that the report he saw "didn't prove to be particularly useful * * * as an investigative tool."¹² Furthermore, almost all of the information reported by the CIA, like all of the other information regarding BCCI's criminal activities that we were receiving at that time, concerned money laundering, which is exactly what the Department of Justice was already investigating.

⁹ See Testimony of William Von Raab, Senate Foreign Relations Committee, August 1, 1991, transcript at 71 (morning session).

¹⁰ Although the FBI and DEA, both of which are Department of Justice components, received certain classified reports concerning BCCI earlier, the 1986 report was not disseminated to either agency.

¹¹ Taylor testimony (8/1/91) at 73 (afternoon session) ("the information in the CIA report is more or less speculative in the sense that it's not documented with any evidence that you could follow up on * * *")

¹² Von Raab testimony (8/1/91) at 71 (morning session).

Second, there have been a number of irresponsible allegations that the CIA somehow blocked or delayed the prosecution of BCCI by interfering with the investigations of the Department of Justice. Those claims are absolutely without foundation. At no time, to my knowledge, has anyone from the CIA, or any other agency, attempted to obstruct or interfere with the Department of Justice's investigation and prosecution of BCCI.

NEW YORK INDICTMENT

I want to turn now to the allegation that the Department of Justice has failed to cooperate with the investigation of BCCI by Manhattan District Attorney Robert Morgenthau.

The claim that the Justice Department has not cooperated with Mr. Morgenthau is unwarranted. The Department has provided substantial assistance to his office since the July 1990 convictions in Tampa, and continues to do so today.

Prosecutors from Mr. Morgenthau's office were provided long ago with unlimited access to all exhibits and the hundreds of tapes made during Operation C-Chase; access to indices to all exhibits and tapes; copies of approximately 1,000 pages of information, including affidavits; copies of all tapes and transcripts, as requested; unlimited access to all agents who worked on the Tampa case; access to witnesses; and detailed financial flow-charts.¹³

That cooperation continues today. For example, the U.S. Embassy in Abu Dhabi, at the request of the Criminal Division's Office of International Affairs ("OIA") has presented a request to the government for the expulsion of Swaleh Naqvi to stand trial in Mr. Morgenthau's case.¹⁴ OIA is also working with Mr. Morgenthau's office to prepare an extradition request to Pakistan for Agha Hasan Abedi. Just last week members of the BCCI task force and Mr. Morgenthau's office conducted a joint interview of an important BCCI witness.

The Department is in touch with Mr. Morgenthau's office on a continuing basis. I have personally directed that all attorneys involved in the BCCI investigation cooperate with Mr. Morgenthau's office to every reasonable extent the law allows. I have also told Mr. Morgenthau on several occasions that he should report any problems to me directly. Any claim that the Department of Justice has interfered with, or failed to cooperate with, Mr. Morgenthau's office is simply wrong.

MONEY LAUNDERING FORFEITURES

Next, I want to address one of the findings of the Schumer Report concerning BCCI's guilty plea in the Tampa case. As the Schumer Report found, the guilty plea was prompted not by any outside influence from Washington, but by the legal situation created by the trial judge's order precluding use of the drug statutes to forfeit from BCCI any of the money it had laundered. Under the court's order, the government faced the prospect, if it had taken the bank to trial, of having to *give back* to BCCI the \$14 million that had been obtained from it in 1988.

When the Department of Justice first proposed what became the Money Laundering Control Act in 1985, we included a provision that would have made "any money or other property involved in [the] offense" subject to forfeiture.¹⁵ But this provision was eliminated. The Senate Report, issued on September 6, 1986, says that the purpose of the change was to limit forfeiture to "the commissions earned by the money launderer" and to preclude forfeiture of the other money involved in the offense.¹⁶

The absence of this provision is what prevented the government from going to trial against BCCI and obtaining the \$15 million—or any other property BCCI had used to commit the money laundering offenses—through forfeiture. When Congress limited money laundering forfeitures to the "commission" earned by the launderer, it limited BCCI's forfeiture exposure in this case to approximately \$250,000, which is the sum total of the commissions the bank received.¹⁷ If we had gone to trial and convicted BCCI, that is all the forfeiture we would have gotten, \$250,000.

¹³ See Letter from Genzman to Morgenthau dated March 8, 1991, and attached documents.

¹⁴ The United States does not have an extradition treaty with Abu Dhabi.

¹⁵ See S.1335 in the 99th Congress.

¹⁶ S. Rep. 99-433, 99th Cong., 2d Sess. (1986), at 8-9.

¹⁷ The assertion of William Von Raab that \$15 million "was actually less than the bank had made from its money laundering activities" is simply false. See Von Raab testimony (8/1/91) at 68 (morning session). The assertion of Mr. Jack Blum is similarly false. *Id.* at 69 (morning session).

The Justice Department came back to Congress in 1988 and got the law changed, so that today laundered money is subject to forfeiture. Because, however, changes in the criminal law do not apply retroactively, we could not make use of that provision in 1990 when the trial was to take place.

CURRENT INVESTIGATIONS

The Department is aggressively pursuing all allegations of wrongdoing by BCCI and its employees. It is conducting investigations through a Washington-based task force and U.S. Attorney's offices in Tampa, Miami, and Atlanta, with related investigations and proceedings in three other cities. At present, 37 federal prosecutors, supported by dozens of agents and supervisory and support personnel, are conducting or supporting investigations nationwide. Two major indictments are pending, and others will likely follow.

Enormous investigative undertakings such as this require a balancing of the need to coordinate efforts and the need to minimize bureaucratic inefficiency. Multiple, overlapping witness interviews, grand jury subpoenas, and document demands from prosecutors around the country could prove disastrous, particularly in foreign countries where officials do not appreciate the decentralized nature of our law enforcement system. Accordingly, certain types of investigative work have to be coordinated closely. On the other hand, prosecutors and investigators must be given sufficient latitude to expend their energies productively. The task force approach, with selected independent but coordinated U.S. Attorney investigations, has been chosen to achieve that difficult balance.

The Washington task force alone has interviewed dozens of witnesses and reviewed tens of thousands of pages of records. It is interviewing witnesses and securing evidence in locations such as Britain, France, Abu Dhabi, Pakistan, Egypt, the Cayman Islands, the Channel Islands, Argentina, Peru, and other countries. It is reviewing proposed charges involving a wide variety of apparent criminal violations.

The Department's prosecutors are conducting a Herculean effort at high speed and under extremely difficult circumstances. The fact that the Department of Justice is aggressively pursuing its investigation does not mean, however, that it will return indictments regardless of the state of the evidence. As I have said repeatedly, the Department will not return an indictment simply to get favorable press coverage or to quiet its critics.

CONCLUSION

In conclusion, Mr. Chairman, I want to reiterate that the Department of Justice has been working on the BCCI matter since 1987; we have obtained significant convictions already; we have two major indictments pending; and we are devoting the resources necessary to ensure that if there is additional wrongdoing yet to be uncovered, it will be pursued professionally, relentlessly, and impartially wherever it may lead.

Senator KERRY. Thank you very much, Mr. Mueller. I appreciate it. I must confess I am a little uncertain as to where to begin for a couple of reasons.

First of all, it is late. We have been here all day and it is a long number of hours. But second, there is a strange road that has been pursued since 1987. I mean, your last comment was, we have been investigating this since 1987. And technically, that is accurate.

Mr. MUELLER. I disagree with the word technically. I think it is accurate.

Senator KERRY. Well, in 1987, you had Bob Mazur and the Customs folks who were fundamentally investigating it. You really only have an assistant U.S. attorney who, as they have all testified, is doing the trial preparations, trial counseling, and so forth.

He is not investigating. He is sort of guiding that or whatever, but the investigation was a Customs investigation. The bank was chosen haphazardly, coincidentally, however you want to call it. I mean, he just happened to pick this bank. He was talking to other banks. This bank proved fruitful. Boom, lo and behold, he is in the bank, and for 1988 and 1989, that is what it is.

There was not a full-time assistant U.S. attorney until 4 months before the takedown. And even then, you had this individual saying we did not have enough resources. They were not able to get the tapes down. They were not able to get transcriptions. They were not able to look at documents and so forth.

In fact, there is an acknowledged timeout, as they called out, as of the takedown itself, the series of first arrests. Then you have a plea agreement. The bank pleads out and to everybody's best sort of sense of things, there is silence on the BCCI front.

I mean that is the perception, Bob, and I am just giving you what—and that comes to us and other people because a lot of reporters were talking to sources, we were talking to sources and the sources all said nothing is really happening.

Then you get into 1989. I think I am correct. January 1990, you have a plea. And at that time in time, there began to be sort of a public hue and cry. But there was enough dissension about the plea that a number of my colleagues joined in writing a letter to the judge admonishing against moving in that direction and there was a certain amount of critical energy about what was happening.

Then a series of articles appear which begin to doubt whether anybody is taking this seriously. And then there is sort of a resurgence of activity. But it was not until after the Wall Street Journal, the Washington Post and the New York Times had begun to front-page Bob Morgenthau's efforts that all of a sudden there was a flurry of newly assigned personnel, new activities, subpoenas issued, and so forth.

So, that is why I say technically. Because the perception really is that there is a gap between 1990 and the latter part of 1991.

Mr. MUELLER. Senator, I have a difficulty dealing with perceptions, perceptions from the outside. In particular, because as you well know as a prosecutor, you cannot disclose what you have been doing and when you have been doing it. Several of your assumptions, I think, are erroneous.

And that is that it was not until July of this year, as a result of newspaper articles and the like, that additional resources were put in, that additional investigations were open. That's just simply incorrect. The information relating to the takeover or the purchase of interests in American banks was passed on to the Federal Reserve early on, as was testified to previously.

Federal Reserve tried to obtain information and evidence of that and was not able to until the Price Waterhouse report disclosed that which was in records, not in the United States, but in records in London, Abu Dhabi, and elsewhere.

When the referrals were made to the U.S. attorney's offices as a result of the Federal Reserve's investigation, based on the Price Waterhouse report, we immediately began assigning assistant U.S. attorneys to conduct those investigations.

Senator KERRY. Right. That was in 1991, right?

Mr. MUELLER. That's correct.

Senator KERRY. But we were working very closely with the Federal Reserve too. We were constantly talking to the Federal Reserve investigators. And I say to you that there was a constant sort of perplexion at the fact that most of the energy seemed to be

coming out of New York and that is just the reality. And that is a reality, not a perception.

Mr. MUELLER. Let me deal with that perception if I might. You have indicated—

Senator KERRY. We are into reality now. We are going to switch from perception.

Mr. MUELLER. Well, let me deal with your perception with reality. And that is that you indicated before that Bob Morgenthau ran with the ball and like Greg Kehoe will say, any prosecutor that make a case, God bless him, and Bob Morgenthau made a case.

But the case of Bob Morgenthau is not the case that I think you were intimating before. And that is, BCCI's acquisition of control over either independents, First American Bank, National Bank of Georgia, or CenTrust. He has not brought any case based on those allegations. The only Federal or the only Government entity that has, has been the Federal Government, the Justice Department.

Senator KERRY. His jurisdiction is not as broad as yours.

Mr. MUELLER. No, but what I'm saying is that while Bob Morgenthau made a case, it was the case based on the Price Waterhouse report and to his credit, he got the Price Waterhouse reports as a result of two of his prosecutors being in Europe at the end of 1990.

Senator KERRY. Let me ask you this question, then. Why do you think that Jack Blum, whom I first directed to say, turn everything over to the Feds, got frustrated enough that on his own he decided that he ought to go up to New York?

Mr. MUELLER. I can't answer why Jack Blum did what he did. I think you heard previously today from the assistants who dealt with him their view of the dealings with him. And, as I say and as I've said before, we, and the direction has gone out from me, that we will cooperate and I think have cooperated with any other prosecutorial body, whether it be Mr. Morgenthau or the Serious Fraud Office in London, who has responsibility under their jurisdiction of prosecuting cases. And we have done that and we will continue to do that.

But in response to this specific question with regard to why Mr. Blum decided to go to the southern, not the southern district, but to the Manhattan district attorney's office, I can't answer that.

Senator KERRY. Where was the principal information that came out of Tampa processed in terms of the larger aspects of this case?

Mr. MUELLER. I don't understand what you mean.

Senator KERRY. Did it go to U.S. Attorney Stephens or did it go into main Justice and was farmed out? Who is overseeing the broader aspects of the case which I have referred to, the arms dealing, the international Ponzi scheme, the artificial sales, conceivably, of banks and purchases of banks? Where was all of that being funneled? Was there one center that was processing that?

Mr. MUELLER. You had certain allegations being made in the U.S. attorney's office in Tampa, if that's what you are referring to. And they were, as you heard previously, the ones that were either pursuing that information or passing it on to the Federal Reserve.

There were as of, I think, the beginning of this year, a number of investigations that were being undertaken in various U.S. attorneys' offices. And it is a function of the way we do business, that the independent, relatively independent, but the various U.S. attor-

neys' offices, conduct the investigations to the point where they come in conflict with investigations in other districts or in certain classes of cases where there's a necessity to go to the Department of Justice.

And so, to the extent that the independent investigations could and were being pursued by the various U.S. attorneys' offices, they were being pursued by the various U.S. attorneys' offices with contacts with the Department of Justice where appropriate.

There came a point in time where the referrals build up from the Fed and it began apparent that there would be conflicts between the districts and it became apparent that a higher degree of coordination would be necessitated. And at that point—

Senator KERRY. What was that point?

Mr. MUELLER. Approximately June or July of this year.

Senator KERRY. Why would that not have been self-evident back in 1988 and 1989 when you had evidence of First American being owned, National Bank of Georgia being bought, New York money transactions taking place, Bob Morgenthau investigating, Washington-based bank with Virginia, Maryland, Georgia, Florida, all involved? Why would it not have immediately been sucked into main Justice and made a primary focus—particularly given the international aspects?

I know an individual U.S. attorney can deal with the Bank of England.

Mr. MUELLER. I think you hear the testimony of the witness today, from the U.S. Tampa U.S. attorney's office. To the extent the allegations should be better pursued by, for instance, the Federal Reserve, the information was passed on to the Federal Reserve.

Senator KERRY. So essentially you are saying that it was left to the Federal Reserve to make a case which they referred to you and you prosecuted this year, or you have now indicted?

Mr. MUELLER. The allegations with regard to First American Bank, for instance, related primarily to—

Senator KERRY. Well, not just First American. I mean what Fed Reserve has now produced to you as a result of the indictment of Ghaith Pharaon, among others?

Mr. MUELLER. I am sorry, the question was?

Senator KERRY. The Fed Reserve's referral to you has resulted in the indictment of Ghaith Pharaon, among others, has it not?

Mr. MUELLER. That is correct.

Senator KERRY. And Mr. Naqvi?

Mr. MUELLER. That is correct.

Senator KERRY. And so forth—so that is not—I mean that could be First American, but that is not specifically what they were indicted for. They were indicted for a series of things, right?

Mr. MUELLER. Well, if you are referring to the indictment that was returned last week, it is an indictment of the BCCI entities, Mr. Abedi, Mr. Naqvi, and Mr. Pharaon, with regard to the acquisition of control of the Independence Bank, not First American Bank, as well as the parking violation with regard to Centrust. It did not encompass the First American transaction.

Senator KERRY. When did the first—speaking of Centrust—when did the first knowledge of Centrust being linked to BCCI surface to Justice?

Mr. MUELLER. I do not know that off the top of my head, Senator. Now are you talking about main Justice, or are you talking about a U.S. attorney's office?

Senator KERRY. I guess any of them.

Mr. MUELLER. That, I just do not know off the top of my head.

Senator KERRY. Can you maybe supply that to us, for the record?

Mr. MUELLER. Yes, I can try, I will find that out and supply that to you.

[The information referred to follows:]

No information was provided by Justice as of January 3, 1992.

Senator KERRY. And can you shed any light for us, Mr. Mueller, on the whole issue of the Saphos letter of how that would have come about? It is my understanding that letters also went to California and New York.

Mr. MUELLER. That is correct.

I mean what I can shed is what was explained to you by Mr. Kehoe before. There was a letter sent, and——

Senator KERRY. Do you know what would have initiated it?

Mr. MUELLER. I do not know what initiated it, other than that the letter that was initially sent was sent for the purpose of assuring that if the Florida regulator decided to leave the bank open, that we had the benefit of a plea bargain, and that we would be able to monitor the accounts of narcotics traffickers who would be using that bank in the future—but only if the bank remained open.

Now, that first letter is ambiguous, at best. But it was rectified within 3 days. But that was the intent of the first letter. And to the extent that it was read to be ambiguous, within actually a day and a half afterward, it was rectified. And that is what Mr. Kehoe testified to before.

Senator KERRY. Just a couple of quick questions, and I will turn it over to my colleague—as you know, there was a big issue recently, and I guess you were dragged into it in your role as head of the Criminal Division, to investigate the Ed Rogers situation.

Mr. MUELLER. Yes.

Senator KERRY. When you went to Abu Dhabi, recently, in connection with BCCI, did you meet with Mr. Rogers over there?

Mr. MUELLER. I have never met or spoken to Mr. Rogers.

Senator KERRY. You have never seen him anywhere, ever?

Mr. MUELLER. Never, not to my knowledge. He may have been in the crowd, some place, but I have never been introduced to him, and I did not know the gentleman.

Senator KERRY. Did you—it is my understanding that he was in Cairo at some meetings there. Have you had any knowledge of that?

Mr. MUELLER. I did after the fact when I attempted to ascertain what, in fact, did happen.

Senator KERRY. And I take it that he was there in connection with the Adham, Mr. Adham, and some of the negotiations that were going on? Is that accurate?

Mr. MUELLER. Well——

Senator KERRY. Do you know what the circumstances were? Let me ask it that way, do you know what they were?

Mr. MUELLER. I do not know the circumstances or the reasons why he was there. I do know, as we—as I put into a letter to Congressman Schumer in response to his, that immediately prior to an interview taking place with one of our prosecutors, that prosecutor was introduced to Mr. Rogers in a very perfunctory manner. Mr. Rogers apparently was in the room prior to the interview being initiated; after the introduction Mr. Rogers left and the interview went forward.

The same thing happened——

Senator KERRY. Did that prosecutor know Mr. Rogers?

Mr. MUELLER. No, had never met him before, had never talked to him——

Senator KERRY. Had never met him before?

Mr. MUELLER [continuing]. Before, did not know who he was. And in fact, the same occurrence happened the following day, where the prosecutor went to the hotel room where the interview was to be conducted, was introduced to a gentleman, and he had forgotten his name. After he came back, he found out, again, that it was Mr. Rogers.

But Mr. Rogers immediately left the room, and the interview went forward. And to my knowledge, that is the only contact that Mr. Rogers had with any of the prosecutors or individuals assigned to the BCCI matter.

Senator KERRY. How did the Justice Department first make contact with Mr. Adham in connection with BCCI?

Mr. MUELLER. Through his attorney.

Senator KERRY. Through his lawyer?

Mr. MUELLER. Through his attorney, Plato Cacheris.

Senator KERRY. A different lawyer.

Mr. MUELLER. Pardon?

Senator KERRY. Not Mr. Rogers', but a different lawyer?

Mr. MUELLER. Plato Cacheris.

Senator KERRY. OK.

Mr. MUELLER. And all negotiations were with that individual. None were with Mr. Rogers.

Senator KERRY. And nobody—did anybody inform you that he might be there or anything?

Mr. MUELLER. Absolutely not.

Senator KERRY. OK.

Have you been able to learn, or has it been part of your inquiry to understand how Mr. Adham, himself, came to know Mr. Rogers' availability or anything?

Mr. MUELLER. I have no——

Senator KERRY. You do not know any of that detail?

Mr. MUELLER. I do not know any of that detail, and I'm not—no, we do not know that detail.

Senator KERRY. Senator Brown.

Senator BROWN. Thank you.

You mentioned earlier that the other aspects of the BCCI case are under investigation.

I assume that means that you are reluctant to discuss publicly what might come up in the future?

Mr. MUELLER. I think I am precluded from doing that, Senator. Senator BROWN. You can appreciate my interest in knowing whether or not the coffee-smuggling operation and the disguised—and as near as we can tell—illegal takeover, or control of the First American is on that list?

Mr. MUELLER. What I can tell you is that an aspect of that was indicted, Mr. Bilbeisi was indicted in the southern district of Florida on income tax charges relating to that matter. And that is a matter of public record. But beyond that, I am really precluded from going forward, sir.

Senator BROWN. In the interest of accommodating the committee you have summarized your testimony. In the draft that we had, you had a section that dealt on the CIA report and transfer of information. As, I think the Department is aware, Senator Kerry and I have offered an amendment that would require the forwarding of information that has a significant impact on the safety and soundness of banking institutions to be forwarded to the Federal Reserve.

That really came out of the testimony before this committee from the CIA. They had a report involving the illegal takeover, or the illegal control of First American in 1985. They did not advise the Federal Reserve of that report. And they did not even identify who made the decision to not advise the Federal Reserve.

And thus far, they have not taken any disciplinary action against the person who made the decision not to identify the Federal—or notify the Federal Reserve.

Now that may well change, those latter aspects of it. But in drafting this amendment, we had been in touch with the Department to try and get their input. And as near as I can tell, the Department is still opposed to the amendment in spite of the changes we have tried to make in it.

But it would be helpful to us to understand the problem with requiring Federal agencies to notify the Federal Reserve when they have information that significantly affects the safety and soundness of banks.

Mr. MUELLER. Senator, I must confess that I am not familiar with the amendment. If I might know—talk generally about obtaining information from the CIA, NSA, or any—DIA—any of the other intelligence agencies—the information that comes from an intelligence agency, as I think Mr. Genzman indicated previously, tends to be very conclusory. But it may give you leads—even though it is conclusory and it's not something you can put into court.

The problem has always been, and it has been in an area in which—in the area in which we have played on this field is generally in espionage cases, and most recently in narcotics cases. We have a very difficult time dealing with information that comes with the intelligence community, because of the discovery requirements under the Federal Rules of Criminal Procedure; and the concern that if we have in our hands intelligence information that has to be made available to defense counsel, we may be in a position at some point in the trial of having to dismiss a case or disclose the sources and methods of certain information coming from the intelligence community.

Now I—in having dealt with the intelligence community for a period of time as an AUSA, I have seen in the last 2 or 3 years, I think, a complete change of attitude toward helping law enforcement, particularly in the narcotics area where Director Webster determined that the intelligence community should be more supportive than it had been in the past, despite the problems that are there.

But anybody who is familiar with the interface between the intelligence community and the criminal justice system, has to understand that there are very, very difficult issues that have to be resolved before you can move ahead.

I only speculate that those difficult issues, as to the possible disclosure of sources and methods balanced against the need to prosecute an individual, might be behind some of the concern about your amendment.

Now let me just finish off by saying that in this particular case, there have been assertions that there were a number of CIA reports that came to the law enforcement authorities, whether it be money laundering or bank regulatory offenses.

To my mind, there were one—or maybe two—although conclusory, relatively specific items of information did not reach the Justice Department. And in fact, the Justice Department, I do not think, was on the list for disclosure or for circulation of CIA reports until, let's say, 1990.

The only other comment I would have with regard to these supposed voluminous, numerous reports, is that not only were they conclusory, but they tended to be reports that would summarize actions that we had taken, or information already known to us in the money laundering area.

And it not only would they have been not very helpful, it would have been duplicative. And in some cases, they reported on that which we had done—in other words, the response to the fact that we had indicted BCCI in money laundering, and the affect that that would have on the operations, whether it be in Latin America or somewhere else.

So I want to put in perspective exactly what we have obtained from the CIA, and make the point that what we have received could not have been the basis for any conceivable prosecution. At the most, had we received in 1985 the conclusory statement about the ownership, it might have been a lead, but it would have been yet another rumor that was already in the hands of the Federal Reserve—even as early as 1985.

Senator BROWN. Well, I appreciate the comments you have made, and I think they are helpful.

Two observations, at least in my mind—it strikes me that while you, of necessity, focus on what you can use in court, and what will cause you potential disclosure problems in those proceedings. For the Federal Reserve, it strikes me, there is some value in being notified that an illegal takeover has taken place or in the process of taking over. And in their standard of evidence, the purpose may be accomplished simply by getting them to initiate an investigation, which is different than the constraints you are under.

But the second point I wanted to make, and hoped that you might consider—my belief is that good legislation, if it is drawn up

by legislators and imposed on administrators, is often not very good. It is not because people's intentions are not very good. I think, at least in this case the intentions are correct.

But good legislation is one that reflects all the facts, and an understanding of the facts. To have an agency say look, we do not care whether you are willing to take care of all the cases and problems we bring up to you or not, we are going to oppose it—is not the way to help bring about good legislation.

Mr. MUELLER. I hope that hasn't been the response of the Department. If it is——

Senator BROWN. It has been exactly the response of the Department.

Mr. MUELLER. I will assure you, Senator, that we will go back and give that thorough scrutiny, and be glad to discuss that with you or your staff, to determine the grounds which we—on which we based our opposition—I assume from what you said that we did—and see if we cannot work around that, and come up with a piece of legislation that helps all of us in the future—but particularly us. I mean we want the information. The prosecutors want the information from the CIA. They want the information wherever they can get it.

And it can only be helpful. And as I said, I think there has been somewhat of an about-face in the last 2 years, in the intelligence community, and the willingness of the intelligence community to help the law enforcement community.

So I would be more—I would offer our assistance in drafting effective legislation. And I apologize to the extent that you or your staff met a stone wall.

Senator BROWN. You know, I do not say it for that reason. I guess these proceedings sometimes take on an adversarial context. But at least in my experience, good legislation is not necessarily the product of that adversarial context. It does not mean that everybody is always going to agree. But even those of us with a limited ability, sometimes can draft pretty good legislation if we have all the assistance we need.

Mr. MUELLER. That's a line I have heard by defense counsel a number of times in court. And I always watch out when somebody says even those of us with limited ability.

We would be very happy to work with you, Senator. I think we have worked with both this committee, and with both the chairman, and hopefully with yourself in structuring legislation that would be helpful to us.

Senator BROWN. Thank you.

Senator KERRY. Thank you, Senator Brown.

Mr. Mueller, just a few quick questions, and we will wrap up here.

But would you, looking back at this now, recognizing what has happened with New York, the contentiousness, and looking at the number of people you now have assigned to this, and the number of areas of inquiry that exist, and the size of the scandal, had you been there—and I acknowledge you were not the ones calling the shots, you were not there on this—but would you have done anything differently in this effort?

Mr. MUELLER. Well, with the advantage of hindsight, I think anybody would say gees, perhaps we should have had more resources helping out Mark Jackowski—but I would venture to say, as I say that, in the same sentence, that those resources probably would have been put on the first priority. And that was transcribing the 1,000 hours of tape. And I—ultimately it got done.

I can also tell you, Senator, that I am sure there are 50 cases out there just like BCCI, that next summer, or whenever, are going to come out, and we are going to have and look back, and say gees, I wish we had put additional resources on it.

I would, I think, strongly disagree with you, however, in your assertion that had you had a grand jury—and you indicate that our prosecutors have huge egos—but I would disagree with you that even though you have spent time in a prosecutor's office, that had you had a grand jury, that you would have broken this case back in 1988 or 1989.

And I say that for the following reasons: The documents that have led to the prosecutions—apart from the money laundering—had been put together by the Price Waterhouse people. And they have given both Bob Morgenthau, and our office, and the U.S. attorney's offices the ability to proceed, where before-hand we did not have that ability. And you look at the witnesses that had come to you before, someone like, I think, Amjad Awan had come, and I think spoken to your committee, or at least to your investigators, and lied, prior to the takedown.

It—you need the documents and you need the witnesses. And without both, you are not going to make a case. So even if you had a grand jury back in 1988 or 1989, I am fairly convinced in my mind, until we had the conclusions of the Price Waterhouse report, based on records overseas, that nobody would have been able to proceed either with criminal charges or even with civil charges.

I think quite clearly from the testimony of the Fed, they wanted to pursue it, they did what they could to pursue these same charges, with expertise beyond what we have in the U.S. attorney's offices or even in main Justice, and were thwarted in that, because they did not have access to the records.

And I venture to say that Bob Morgenthau—I am sure you have had conversations, and the staff has had conversations with him—will have said that the key to unlocking it was putting together the documents, and the summary of the documents that you found in the Price Waterhouse report, together with witnesses' testimony.

And going back to what happened in Tampa, I tend to think that when Greg Kehoe sits here and says my strategy was to go after the individuals and make them talk, that's a strategy that I would have chosen back then. Because that is a strategy, as a prosecutor, that I have used. And I think it is probably the strategy that you used in Middlesex County as a prosecutor to bring a big case. And I would have done exactly the same thing. I would have put all the pressure I could on those individuals to cooperate, so that I knew that I had individuals who were going to tell the truth under the threat of doing more time in jail, and make certain that the case that I made was a case that would stand up under scrutiny when it went to court.

The other thing I would need, in addition to the witnesses, are the documents. And as I say, the first inclination we had was the Price Waterhouse report. That doesn't give us, and you can't walk into court with the Price Waterhouse report. You still have to get the underlying documents.

But we have the conclusions and the summaries of a review of the documents that gave us the ability to say hey, look, that which had been suspected, perhaps as early as 1980, really occurred.

Senator KERRY. The reason I stand by my assertion is we issue the rate subpoenas. And we would have gotten the documents. But we did not have the ability to back up our subpoenas, which is one of the tougher parts of Congress. To back up a subpoena, you have to go to the floor of the U.S. Senate. And in 1988, there was no mood here, whatsoever, to back it up—which is one of the reasons, incidentally, Jack Blum began to express frustration. And a lot of us did. And people got a sense of institutional barriers, if you will.

And the joy—well, not the joy, that is the wrong word—but the facility of a grand jury is such, as you well know better than anybody, that the capacity to compel, and the capacity to bring those witnesses through in a matter of days or weeks, and to compile the documents is an extraordinary investigative tool, used to great avail by a lot of people.

That is one of the things that never surfaced here in the early days of this effort. And that was one of the reasons. But beyond that, would you have done anything differently? I mean the resource issue is key.

Mr. MUELLER. Well, I think looking at it from my own involvement, there are probably two things that I would have done differently. One is I would have, I think, pursued sitting down with Bob Morgenthau earlier. We made overtures, and we missed each other on a couple of occasions. But I think that would have been helpful. Because I think there has been some miscommunication as to what is wanted and what has been provided.

And I default myself for not having pursued that, and sat down with him one-on-one. We set up meetings, we had our prosecutors talking with each others. But that does not substitute for sitting down one-on-one with a person. That is one thing, and that is going to occur, since the issue has been raised again.

The second thing that I look back on, and that is the way our system works in the Federal Government. And that is, with U.S. attorneys offices handling particular charges, along with agents in that district. And I think that is, by far, the appropriate system, and the best way to go.

And to the extent that there are not—there are no conflicts between districts, then it really is debilitating for Justice to step in, and to try to coordinate. And the decision was made by me, basically, at the outset, to let the investigations run independently. Because I felt that they would be more effectively run independently, and that we could coordinate at the Justice Department level well enough to assure that all of the allegations were being pursued, were pursued, and coordinated sufficiently so that the cases were brought expeditiously.

Because when you pull something in, and you control from main Justice, there is a downside. You have all of the assistants who

were in the particular district. You have the agents who are familiar with the charges. They have their own grand juries. They are in midstream. And to the extent that you try to pull it out, you undercut the thrust of the investigation.

But there comes a point in time where there are four or five U.S. attorneys office, all of which wish to have their assistants and their agents sitting at an interview of one person. And you have to do a different degree of coordination. And as we have gone down this path, I think we have enhanced the coordination to respond to the necessities of having just two or three people conducting an important interview.

And those problems of coordination are exacerbated when it's not just the U.S. attorney's offices that are conducting their independent investigations, but you have other prosecutorial offices in the United States and overseas who either have the witnesses, or want access to those witnesses. And you have to structure the investigations in such a way so that you maximize your ability to conduct an investigation in a thorough and expeditious manner.

And if you asked me, I would probably say that we probably should have enhanced the coordination from main Justice earlier than we did. Because we're ending up with a number of people in interviews, and interviews were getting delayed because somebody wanted to be there. Those things happen.

Senator KERRY. Well, I think that is a very fair assessment and I appreciate it.

I mean I think it is sort of naturally a human fact that if you have 100 leads out there, and you only have a few people, it is almost inevitable that people can draw a conclusion when 75 of those people do not get reached, that something is not happening. And it is not purposeful, it could well be inadvertent or unwillingly. But that is what people are going to feel is a consequence of it.

I do not believe there was a willful inadvertence here. I think it happened, which is one of my frustrations.

Is there not, therefore, in all of this, a lesson also about, perhaps even something more macro, which is turf and coordination? Do we need to think up here in the Congress about a different line of communication for the overall law enforcement coordination? Now you have the IRS out there, under Treasury; you have Customs under Treasury; you have the FBI, and you have the DEA; you have your—I mean do we need to rethink this?

Mr. MUELLER. I think we all continuously need to address the problem.

I know when I first started as a prosecutor, and I saw the various jurisdictions, and I also had some, on occasion, deal with the Royal Canadian Mounted Police, who were all under one umbrella. And my initial reaction was, as a prosecutor, wouldn't it be helpful if we had one, national, law enforcement agency?

Over a period of time, though, I think in this country, there is a natural and perhaps deserved desire not to have a national police agency. And in the same way that we have checks and balances between the three branches of Government, to a certain extent there are checks and balances between the agencies.

That does not mean, however, that there are not areas in which there should be better coordination, less turf battles, in areas where there could be consolidation of agencies or responsibilities.

But it is something that, I think, probably requires continuous discussion with an understanding that there are a number of people, particularly up here, who would have some substantial aversion to one, national police agency.

Senator KERRY. I would share that. I think it is true. I think it is more a question of how to deal with the coordination issue. It is something to think about in the long-run.

What about the international money laundering? It seems to me that the testimony of Mr. Mazur confirms what many of us have been saying, and what we fear, which is that this is, you know, so huge, and so instantaneous, and so subject to subterfuge and clandestine operations, et cetera, that in this modern world of ours with international marketplace, and instant transfers of huge sums of money, is this just out of our ability to be able to track, or is there a supercomputer capacity and tracking capacity that simply has not been implemented, and some software that would help us to—I know the Fin-cen is in the making and so forth. But is that adequate? Or is there something more that we have to think of resource?

Mr. MUELLER. I think Fin-cen is very good in handling certain types of investigations, and to providing the analytical support.

As to the wire system, we are undergoing a review of that, along with Treasury, to determine whether there is some mechanism, some way that we can do a better job of tracking it. And I am still somewhat ignorant of all the ins and outs of the wire transfer system. And I am in the process of trying to educate myself more than I perhaps have been in the past.

I know people in our money laundering office have been up to New York with the perspective, or with the goal of trying to come up with additional ways to monitor wire transfers, for instance, and to see if we cannot come up with some better ability to track and initiate investigations into money laundering.

But it is a very difficult issue, as I am led to believe. But we are trying to make advances in that area.

Senator KERRY. I have just been passed a note that informs me that the bank bill just passed the Senate by a voice vote. That happens to have title 9 on it, which is the anti-money laundering provisions that I authored—but also, the bank charter revocation provisions, which we hope will be a new tool to enable you folks to rattle the cage of some of these banks that do not want to help comply and work as part of the solution to it.

And I hope it will be a useful tool, I really do.

Mr. MUELLER. We all like to rattle the cage.

Senator KERRY. If it is the right one.

Mr. Mueller, I think this has been a long day. And I am prepared to call an end to it.

We now have a new attorney general; you have a new boss. Yesterday, I think it was yesterday, it might have been the day before—no, it was yesterday—we completed a process of looking at some documents that we had been trying to get from the Justice Department.

I appreciate your role in helping to make those documents available to me, and to the committee. Frankly, it kind of confirmed to me a sense that there really does not have to be the kind of contentiousness that has existed. That, you know, I saw the document, and it seemed pretty straightforward and simple. And I can assure you that you are not going to see them in public—we do not have them, nor even any recitations of them, and there have not been any today.

But it seems to me——

Mr. MUELLER. I am sorry.

Senator KERRY. I am just going to say that I think it is important to try to make that the rule, rather than the exception, and to try to have a communicative process here that meets your needs, but at the same time, meets the congressional oversight needs. And there really is a complication in this notion of, quote “executive privilege.” We are not the first people to raise it. It has been a time-honored bone of contention between Congress and the Executive—sometimes for better reasons than for others.

But it is my hope that under Attorney General Barr’s leadership, and under yours, that as the committee tries to just wind this process up, we can work through the rest of those documents as readily and easily as I thought we did yesterday, with as little fuss.

And I hope that will be possible.

Mr. MUELLER. You mentioned about publicizing some of them. I understood that Mr. Mazur’s letter was released today. And am I wrong——

Senator KERRY. Only partially.

Mr. MUELLER. And I wasn’t certain of the circumstances under that. I think we discussed the fact the Treasury, not the Justice Department, had some concerns about that——

Senator KERRY. Treasury notified us of concerns with respect to any individuals who might be compromised by name or by identification, because there were some allegations made in the letter that were not rebutted, and that might subject them to embarrassment, or—for reasons that were fair. And we made a judgment about that. And, in fact, I personally took out any references that referred to any individual, or to any of those specific items.

So that the only part of it that was made public, in my judgment, was the gravamen of what Mr. Mazur had said here today, in terms of what he found as difficulties in his relationship that caused him to depart. And I think that was it.

Mr. MUELLER. Well, I guess we—we had not heard from Treasury that that had been agreed upon. But the——

Senator KERRY. Treasury wrote us a letter, wrote me a letter and Senator Brown a letter, in which they had laid out their concern. And so we, I thought, had adequately addressed the concern. And that was quite sensible.

Mr. MUELLER. But going back to your initial comments about the process we went through yesterday—to the extent that we can—I think we would very much, with regard to our documents, be willing to go through similar processes in the future. And we have done it not only with this committee, but with other committees.

And we would hope that to the extent that we can, we can make available to you those documents that you need to have in front of

you, as I know you understand, because we have discussed it. And Mr. Kehoe has been present when we discussed it, to the extent that certain of those documents relate to ongoing investigations, confidential informants and the like. Then we have, quite obviously, some very real problems.

But I can assure you that with regard to this particular investigation, and as far as I am concerned with any investigation that I am aware of, we have nothing to hide.

And part of my concern and frustration is given our responsibilities as law enforcement officials, we cannot let you see those portions of document, or have access to grand jury records, that will support us when we make certain assertions.

And it is frustration to have to redact a document because people read into that a desire by the Government not to put out there that which may be embarrassing. And in my mind, we have nothing to be embarrassed about in this investigation. And it would be our preference to give you access to just about everything that we could. But we have to operate as you, I know, understand, under certain restrictions.

So I would hope that we can work this out in the future. That is the bottomline.

Senator KERRY. Let me say to you, simply, about that, Mr. Mueller, that for better or worse, there is a trust factor that is assumed by Senators and Congressmen when they are sworn in. And merely by election to the U.S. Senate, one is given what is called code clearance which is the highest clearance our Government gives.

And on most matters, any U.S. Senator can walk up to Senate 407 and read the daily intelligence, read precisely what is happening with respect to Libya and Qadhafi, with respect to the Soviet Union, with respect to many of our allies and friends, and with respect to all nominations that come up here. We read FBI reports in many cases. We read what are mere allegations.

And most of them, most of them, never reach the light of day—not all of them—

Mr. MUELLER. That is the issue, particularly when you have—

Senator KERRY. But that is part of the problem in our Government. It is not appropriate, and there is no constitutional basis for any agency making its own determination that the Congress, the elected representatives of the people, somehow cannot see something. And I understand the assertion, and the principle that it is based on.

But it remains a major bone of contention in terms of how the process works. There is no way for us, as the elected representatives of the people, to make a judgment about whether or not something is or is not happening, or has or has not been done, if the document supporting it could be kept from us, and nobody can talk about it. Because it is, so to speak, an ongoing investigation.

I can assure you, that there are very few ongoing investigations in the country that amount to the level of security issue of most of the information that crosses our desks that is classified.

I think somewhere there has to be an element of a process of some trust. And I thought you reached out yesterday and did a good job of, you know, blanking out a specific name, or whatever—

but providing for us the capacity to make a judgment that the gist of this was, you know, appropriate.

And that allows us to deal with conspiracy theories by the press; to deal with assertions of arrogance and all the rest of it. And we can stand up and say, hey, let me tell you something. These guys are doing precisely what they have said. And they are doing a damn, good job. And it is better for you to have us standing up and saying that, rather than joining in the human cry, or claiming that somehow you are wrongly keeping something from us.

And I bet you, you win 99 out of the 100 times, by virtue of doing that—and would simply and facilitate your lives, significantly. That is just my feeling.

Mr. MUELLER. I can tell you, Senator, to the extent we are able to do it, we do it. And what is helpful also to us is to know the specifics of what you are seeking.

I mean, quite often, as you well know, we get requests that would be thrown out of any civil court. Because it would constitute abuse of the discovery process. And we are asked—we are given wholesale requests for document, many of which contain sensitive matters.

To the extent that we can enter into a dialog with a Senator or the staff, and narrow the issues, and pinpoint certain documents, as we did yesterday, we are always willing to do it. And there is some mutual trust. And that is necessitated. And I cannot think of an occasion in the last 1½ years that I have been in, or 2 years that I have been in Washington, now, and been somewhat involved in this process, where we have not attempted to reach that kind of compromise where we provide to you that which you need; but also protect that which must be protected from our perspective.

Senator KERRY. Let me just say, also, that I have high expectations. I think we have a good person in there, who has been very direct with us in the confirmation process. Had we had a recorded vote, I would have cast my vote for him. I have known you a long time. But you have not been involved in the BCCI thing the whole route.

I am convinced that the Justice Department is all-out on this now. I believe that. And I think there are going to be indictments, and a lot of things yet to come in it.

And I am convinced, also, that you are one of the good professionals in this process. You could be doing a lot of other things, not the least of which is out there earning a hell of a lot of money. And you have been at this for a long time as an assistant U.S. attorney, as a first assistant, and now down here in Washington.

So I have no quarrel with your abilities or your capacity or professionalism in this. I know that the Justice Department is going to complete this task. But I am not walking away from my earlier perceptions and so forth of the new regime, and the new outlook.

But I hope for the country's sake, there is going to be a much better relationship. Because we need it desperately. We do not need entities of Government, the bickering and quarreling on the front pages of our papers. We really need a cooperative effort.

And I hope that from this point on, we are going to have that sense with regard to BCCI. And I am confident that we will. Do

you have anything that you want to—and I do not want to cut you off?

Mr. MUELLER. No, I think I have said enough.

The only thing I will say is that the new Attorney General, I think articulated it in his confirmation hearing, a desire to work with Congress as a co-equal branch of Government. And to the extent that we can cooperate, we do want to cooperate, understanding that some of the strictures under which we do have to operate.

And so we look forward again to dealing with and working with this subcommittee in the future.

Senator KERRY. Thank you.

We stand adjourned.

[Whereupon, at 7:20 p.m., the committee adjourned, to reconvene subject to the call of the Chair.]





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